

CHART INDUSTRIES INC  
Form 10-Q  
October 27, 2016  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

---

FORM 10-Q

---

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 1-11442

---

CHART INDUSTRIES, INC.  
(Exact Name of Registrant as Specified in its Charter)

---

Delaware 34-1712937  
(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification No.)  
One Infinity Corporate Centre Drive, Suite 300, Garfield Heights, Ohio 44125  
(Address of Principal Executive Offices) (ZIP Code)  
Registrant's Telephone Number, Including Area Code: (440) 753-1490

NOT APPLICABLE

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

---

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this Chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

At October 24, 2016, there were 30,596,345 outstanding shares of the Company's Common Stock, par value \$0.01 per share.

CHART INDUSTRIES, INC.  
INDEX

Part I. Financial Information

| <u>Item 1. Financial Statements</u>  | <u>Page</u> |
|--|-------------|
| <u>Condensed Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015</u>  | <u>3</u>    |
| <u>Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the Three and Nine Months Ended September 30, 2016 and 2015</u> | <u>4</u>    |
| <u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2016 and 2015</u>   | <u>5</u>    |
| <u>Notes to Unaudited Condensed Consolidated Financial Statements</u>  | <u>6</u>    |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>   | <u>21</u>   |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>  | <u>31</u>   |
| <u>Item 4. Controls and Procedures</u>   | <u>32</u>   |
| <u>Part II. Other Information</u>  |             |
| <u>Item 1A. Risk Factors</u>   | <u>33</u>   |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>   | <u>33</u>   |
| <u>Item 4. Mine Safety Disclosures</u>   | <u>33</u>   |
| <u>Item 6. Exhibits</u>  | <u>34</u>   |
| <u>Signatures</u>  | <u>35</u>   |

Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

CHART INDUSTRIES, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (Dollars in thousands, except per share amounts)

|   | September 30,<br>2016 | December 31,<br>2015 |
|---|-----------------------|----------------------|
|   | (Unaudited)           |                      |
| <b>ASSETS</b>   |                       |                      |
| Current Assets  |                       |                      |
| Cash and cash equivalents   | \$ 267,276            | \$ 123,708           |
| Accounts receivable, less allowances of \$7,890 and \$6,965   | 132,556               | 183,514              |
| Inventories, net  | 182,227               | 199,302              |
| Unbilled contract revenue   | 19,621                | 59,283               |
| Prepaid expenses  | 11,230                | 8,494                |
| Other current assets  | 14,832                | 12,929               |
| Total Current Assets  | 627,742               | 587,230              |
| Property, plant and equipment, net  | 258,081               | 266,277              |
| Goodwill  | 219,091               | 218,390              |
| Identifiable intangible assets, net   | 96,913                | 106,714              |
| Other assets  | 16,038                | 21,529               |
| <b>TOTAL ASSETS</b>   | <b>\$ 1,217,865</b>   | <b>\$ 1,200,140</b>  |
| <b>LIABILITIES AND EQUITY</b>   |                       |                      |
| Current Liabilities   |                       |                      |
| Accounts payable  | \$ 65,737             | \$ 97,413            |
| Customer advances and billings in excess of contract revenue  | 72,563                | 71,030               |
| Accrued salaries, wages and benefits  | 35,993                | 33,886               |
| Current portion of warranty reserve   | 13,523                | 15,341               |
| Short-term debt and current portion of long-term debt   | 6,739                 | 6,160                |
| Other current liabilities   | 30,045                | 38,209               |
| Total Current Liabilities   | 224,600               | 262,039              |
| Long-term debt  | 232,079               | 213,798              |
| Long-term deferred tax liabilities  | 8,723                 | 5,146                |
| Long-term portion of warranty reserve   | 3,732                 | 5,634                |
| Accrued pension liabilities   | 15,776                | 17,283               |
| Other long-term liabilities   | 20,624                | 20,504               |
| Total Liabilities   | 505,534               | 524,404              |
| Equity  |                       |                      |
| Common stock, par value \$0.01 per share – 150,000,000 shares authorized, 30,595,086 and 30,545,657 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively | 306                   | 305                  |
| Additional paid-in capital  | 394,459               | 387,100              |
| Retained earnings   | 339,618               | 308,091              |
| Accumulated other comprehensive loss  | (24,127)              | (24,904)             |
| Total Chart Industries, Inc. Shareholders' Equity   | 710,256               | 670,592              |
| Noncontrolling interests  | 2,075                 | 5,144                |

Edgar Filing: CHART INDUSTRIES INC - Form 10-Q

|                              |              |              |
|------------------------------|--------------|--------------|
| Total Equity                 | 712,331      | 675,736      |
| TOTAL LIABILITIES AND EQUITY | \$ 1,217,865 | \$ 1,200,140 |

The balance sheet at December 31, 2015 has been derived from the audited financial statements at that date, but does not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements.

See accompanying notes to these unaudited condensed consolidated financial statements.

3

---

Table of Contents

## CHART INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)  
(UNAUDITED)

(Dollars and shares in thousands, except per share amounts)

|  | Three Months Ended |            | Nine Months Ended |           |
|--|--------------------|------------|-------------------|-----------|
|  | September 30,      |            | September 30,     |           |
|  | 2016               | 2015       | 2016              | 2015      |
| Sales  | \$203,930          | \$264,047  | \$644,782         | \$779,404 |
| Cost of sales  | 134,307            | 195,758    | 435,507           | 563,712   |
| Gross profit   | 69,623             | 68,289     | 209,275           | 215,692   |
| Selling, general and administrative expenses                                     | 45,430             | 48,108     | 143,862           | 146,898   |
| Amortization   | 2,912              | 4,572      | 9,156             | 13,099    |
| Asset impairment   | 1,217              | —          | 1,217             | —         |
| Operating expenses   | 49,559             | 52,680     | 154,235           | 159,997   |
| Operating income   | 20,064             | 15,609     | 55,040            | 55,695    |
| Other expenses:  |                    |            |                   |           |
| Interest expense, net  | 4,291              | 4,073      | 12,556            | 11,994    |
| Financing costs amortization   | 321                | 322        | 963               | 969       |
| Foreign currency loss  | 4                  | 848        | 117               | 771       |
| Other expenses, net  | 4,616              | 5,243      | 13,636            | 13,734    |
| Income before income taxes   | 15,448             | 10,366     | 41,404            | 41,961    |
| Income tax expense   | 1,764              | 6,095      | 12,829            | 15,333    |
| Net income   | 13,684             | 4,271      | 28,575            | 26,628    |
| Noncontrolling interests, net of taxes   | (1,341 )           | (489 )     | (2,952 )          | (535 )    |
| Net income attributable to Chart Industries, Inc.                                | \$15,025           | \$4,760    | \$31,527          | \$27,163  |
| Net income attributable to Chart Industries, Inc. per common share:              |                    |            |                   |           |
| Basic  | \$0.49             | \$0.16     | \$1.03            | \$0.89    |
| Diluted  | \$0.48             | \$0.15     | \$1.02            | \$0.88    |
| Weighted-average number of common shares outstanding:                            |                    |            |                   |           |
| Basic  | 30,585             | 30,498     | 30,578            | 30,487    |
| Diluted  | 31,064             | 30,745     | 30,940            | 30,693    |
| Comprehensive income (loss), net of taxes  | \$13,932           | \$(1,964 ) | \$29,235          | \$15,243  |
| Less: Comprehensive loss attributable to noncontrolling interests, net of taxes  | (1,364 )           | (762 )     | (3,069 )          | (803 )    |
| Comprehensive income (loss) attributable to Chart Industries, Inc., net of taxes | \$15,296           | \$(1,202 ) | \$32,304          | \$16,046  |

See accompanying notes to these unaudited condensed consolidated financial statements.

Table of Contents

CHART INDUSTRIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)  
(Dollars in thousands)

|   | Nine Months Ended<br>September 30, |                 |
|---|------------------------------------|-----------------|
|   | 2016                               | 2015            |
| <b>OPERATING ACTIVITIES</b>   |                                    |                 |
| Net income  | \$28,575                           | \$26,628        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                    |                 |
| Depreciation and amortization   | 28,605                             | 34,134          |
| Asset impairment  | 1,217                              | 1,556           |
| Interest accretion of convertible notes discount                                  | 9,268                              | 8,566           |
| Employee share-based compensation expense   | 9,014                              | 9,203           |
| Financing costs amortization  | 963                                | 969             |
| Unrealized foreign currency transaction loss (gain)                               | 318                                | (764 )          |
| Other non-cash operating activities   | (390 )                             | (136 )          |
| Changes in assets and liabilities, net of acquisitions:                           |                                    |                 |
| Accounts receivable   | 55,706                             | 17,269          |
| Inventory   | 16,246                             | (8,073 )        |
| Unbilled contract revenues and other assets                                       | 38,721                             | 13,170          |
| Accounts payable and other liabilities  | (43,393 )                          | (36,524 )       |
| Customer advances and billings in excess of contract revenue                      | 1,742                              | (11,573 )       |
| Net Cash Provided By Operating Activities   | 146,592                            | 54,425          |
| <b>INVESTING ACTIVITIES</b>   |                                    |                 |
| Capital expenditures  | (13,411 )                          | (36,066 )       |
| Payments for land use rights  | —                                  | (11,043 )       |
| Proceeds from sale of assets  | —                                  | 395             |
| Government grants   | 1,055                              | —               |
| Acquisition of businesses, net of cash acquired                                   | (1,383 )                           | (24,517 )       |
| Net Cash Used In Investing Activities   | (13,739 )                          | (71,231 )       |
| <b>FINANCING ACTIVITIES</b>   |                                    |                 |
| Borrowings on revolving credit facilities   | 3,820                              | 68,827          |
| Repayments on revolving credit facilities   | (6,061 )                           | (67,196 )       |
| Borrowings on term loan   | 13,167                             | —               |
| Repayments on term loan   | (1,508 )                           | —               |
| Proceeds from exercise of options   | 26                                 | 486             |
| Excess tax benefit from share-based compensation                                  | 54                                 | 133             |
| Payment of contingent consideration   | —                                  | (611 )          |
| Common stock repurchases  | (658 )                             | (849 )          |
| Dividend distribution to noncontrolling interest                                  | —                                  | (120 )          |
| Other financing activities  | —                                  | (156 )          |
| Net Cash Provided By Financing Activities   | 8,840                              | 514             |
| Effect of exchange rate changes on cash   | 1,875                              | (4,827 )        |
| Net increase (decrease) in cash and cash equivalents                              | 143,568                            | (21,119 )       |
| Cash and cash equivalents at beginning of period                                  | 123,708                            | 103,656         |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>                                 | <b>\$267,276</b>                   | <b>\$82,537</b> |

See accompanying notes to these unaudited condensed consolidated financial statements.



Table of Contents

CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements – September 30, 2016

(Dollars and shares in thousands, except per share amounts)

NOTE 1 — Basis of Preparation

The accompanying unaudited condensed consolidated financial statements of Chart Industries, Inc. and its consolidated subsidiaries (the “Company” or “Chart”) have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for annual financial statements. These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

**Nature of Operations:** The Company is a leading diversified global manufacturer of highly engineered equipment for the industrial gas, energy, and biomedical industries. Chart’s equipment and engineered systems are primarily used for low-temperature and cryogenic applications utilizing our expertise in cryogenic systems and equipment, which operate at low temperatures sometimes approaching absolute zero (0 kelvin; -273° Centigrade; -459° Fahrenheit). The Company has domestic operations located across the United States, including principal executive offices located in Ohio, and an international presence in Asia, Australia, Europe and South America.

**Principles of Consolidation:** The unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany accounts and transactions are eliminated in consolidation.

**Reclassifications:** Certain reclassifications have been made to the 2015 condensed consolidated cash flow statement in order to conform to the 2016 presentation. Additionally, beginning in 2016, the Company allocates share-based compensation expense to each operating segment and maintains share-based compensation expense related to Corporate employees at Corporate. Prior to 2016, all share-based compensation expense was recorded at Corporate. Reclassifications from Corporate to the operating segments have been made to the 2015 selling, general and administrative expenses (“SG&A”) to conform to the 2016 presentation.

**Use of Estimates:** The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates may also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

**Guarantees of Third-Party Performance:** During the first quarter of 2016, the Company became a member to a consortium agreement relating to a project with a third-party. This agreement entails the Company guaranteeing not only its own performance, but also the work of a third-party consortium partner. In the event of non-fulfillment of contractual obligations by the consortium partner, the Company may be required to perform the obligations of the consortium partner. The agreement term covers the project through completion; approximately 1.5 years. At September 30, 2016, the estimated cost of the performance under this guarantee was 14.6 million euros (equivalent to \$16.3 million). If losses are incurred under the guarantee due to third-party non-performance, the Company has certain rights that would allow it to mitigate such loss. If necessary, the carrying amount of any liability recorded in the condensed consolidated balance sheet would reflect the Company’s best estimate of future payments which it may incur as part of fulfilling its guarantee obligation. Currently, there is no liability recorded at September 30, 2016.

**Long-lived Asset Impairments:** The Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that long-lived assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets.

During the third quarter of 2016, the Company identified impairment indicators that suggest the carrying value of a certain asset group in China within the Distribution & Storage (“D&S”) segment may not be recoverable. The primary



impairment indicators include recently completed projections of future cash flows and the associated impact on the long-range strategic plan forecasts, lower than expected cash flows attributed to this asset group and poor market conditions. An undiscounted cash flow test performed for this asset group indicated it was not recoverable. The fair value of the asset group was established using a discounted cash flow model which utilized Level 3 inputs in the fair value hierarchy. As a result of the long-lived asset impairment assessment performed, the Company recorded long-lived asset impairment charges on its D&S reporting unit of \$1,217. The impairment charges were \$542 related to finite-lived intangible assets and \$675 related to tangible property, plant and equipment. There were no remaining long-lived assets recorded on the condensed consolidated balance sheet for this asset group as of September 30, 2016.

Table of Contents

CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements – September 30, 2016

(Dollars and shares in thousands, except per share amounts) – Continued

Additionally, during the third quarter of 2016, events and circumstances indicated that other tangible property, plant and equipment in China within our D&S segment might be impaired. However, the Company's estimate of undiscounted cash flows indicated that such carrying values were expected to be recovered. Nonetheless, it is reasonably possible that the estimate of undiscounted cash flows may negatively change in the near term, which may result in the need to write down these assets to fair value. The Company's estimate of cash flows may change in the future due to poor market conditions and excess capacity in the industry.

**Recently Issued Accounting Standards:** In October 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory." The FASB issued the update to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. The new guidance clarifies that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Two common examples of assets included in the scope of this update are intellectual property and property, plant and equipment. The standard will be effective for fiscal years beginning after December 15, 2017 and interim periods within those years. Early adoption is permitted as of the beginning of an annual reporting period for which financial statements (interim or annual) have not been issued. The amendments in this update must be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. The Company is currently assessing the effect that the ASU will have on the Company's financial position, results of operations, cash flows and disclosures.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments." The FASB issued the update to clarify how entities should classify certain cash receipts and cash payments on the statement of cash flows. The new guidance also clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. The standard will be effective for fiscal years beginning after December 15, 2017 and interim periods within those years and the guidance will generally be applied retroactively. Early adoption is permitted with all of the amendments adopted in the same period. If an entity early adopts the guidance in an interim period, any adjustments must be reflected as of the beginning of the fiscal year that includes that interim period. The Company is currently assessing the effect that the ASU will have on the Company's cash flows.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses – Measurement of Credit Losses on Financial Instruments." The FASB issued the update in response to criticism that current guidance delays recognition of credit losses. The new guidance changes the impairment model for most financial assets and certain other instruments. Additionally, for trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a new forward looking "expected loss" model that generally will result in the earlier recognition of allowances for losses. Entities will have to disclose significantly more information, including information they use to track credit quality by year of origination for most financing receivables. Early adoption is permitted for annual periods beginning after December 15, 2018, including interim periods therein. The standard will be effective for fiscal years beginning after December 15, 2019, including interim periods within such fiscal years. The Company is currently assessing the effect that the ASU will have on the Company's financial position, results of operations, cash flows and disclosures.

In March 2016, the FASB issued ASU 2016-09, "Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." The FASB issued the update to change certain aspects of accounting for share-based payments to employees. The update eliminates additional paid-in-capital pools and requires all income tax effects of awards to be recognized in the statements of operations when the awards vest or settle. The standard will be effective for fiscal years beginning after December 15, 2016, including interim periods within such fiscal years. Early adoption is permitted, but all of the guidance must be adopted in the same period. If an entity early adopts the guidance in an interim period, any adjustments must be reflected as of the beginning of the fiscal year that includes that interim period. The Company does not plan to early adopt and is currently assessing the effect that the ASU will

have on the Company's financial position, results of operations, cash flows and disclosures.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." The FASB issued the update to require the recognition of lease assets and lease liabilities on the balance sheet of lessees. The standard will be effective for fiscal years beginning after December 15, 2018, including interim periods within such fiscal years. The ASU requires a modified retrospective transition method with the option to elect a package of practical expedients. Early adoption is permitted. The Company is currently assessing the effect that the ASU will have on the Company's financial position, results of operations, cash flows and disclosures.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The amendments address certain aspects of recognition, measurement,

Table of Contents

## CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements – September 30, 2016

(Dollars and shares in thousands, except per share amounts) – Continued

presentation, and disclosure of financial instruments. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within such fiscal years. Except for certain early application guidance provided in the ASU, early adoption is not permitted. The Company is currently assessing the effect that the ASU will have on the Company's financial position, results of operations, cash flows and disclosures.

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory." The amendments require an entity to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The amendments do not apply to inventory that is measured using the last-in, first-out cost method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out or average cost. This ASU is effective for fiscal years beginning after December 15, 2016. The amendments in this ASU are to be applied prospectively. Early adoption is permitted. The Company does not plan to early adopt nor does it expect that the ASU will have a significant impact on the Company's financial position, results of operations, cash flows and disclosures.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." The amendments require entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date of the new standard by one year. As a result, the standard will be effective for fiscal years beginning after December 15, 2017, including interim periods within such fiscal years. In March 2016, the FASB issued ASU 2016-08, which amended the principal versus agent guidance in the new revenue standard and is intended to result in more consistent application and reduce the cost and complexity of applying the new standard. In April 2016, the FASB issued ASU 2016-10, which amended the guidance to clarify accounting for licenses of intellectual property and to clarify the guidance on performance obligations. In May 2016, the FASB issued ASU 2016-12, which provided narrow-scope amendments and practical expedients for the new revenue standard and is intended to reduce the cost and complexity of applying the new standard. The new revenue recognition ASU allows full retrospective or modified retrospective adoption. Early adoption is permitted as of fiscal years beginning after December 15, 2016, including interim periods within such fiscal years. The Company is currently assessing the transition method and effect that the ASU will have on the Company's financial position, results of operations, cash flows and disclosures but does not intend to early adopt this standard.

Recently Adopted Accounting Standard: In April 2015, the FASB issued ASU 2015-03, "Interest-Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs." The amendments require an entity to present debt issuance costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of debt issuance costs will continue to be reported as interest expense. In August 2015, the FASB issued ASU 2015-15, which states that the SEC staff would not object to an entity deferring and presenting debt issuance costs related to a revolving line-of-credit as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the revolving line-of-credit arrangement, regardless of whether a balance is outstanding. The Company adopted the guidance for the fiscal year beginning January 1, 2016. The new guidance was applied retrospectively for the prior period presented. The impact of the adoption of the guidance resulted in classification of the unamortized debt issuance cost related to the convertible notes on the condensed consolidated balance sheets in long-term debt. The unamortized debt issuance costs reclassified at December 31, 2015 were \$1,836. Debt issuance costs related to the Senior Secured Revolving Credit Facility are classified in other assets on the condensed consolidated balance sheets.

## NOTE 2 — Inventories

The following table summarizes the components of inventory:

|                            | September 30,<br>2016 | December 31,<br>2015 |
|----------------------------|-----------------------|----------------------|
| Raw materials and supplies | \$ 72,496             | \$ 76,680            |
| Work in process            | 33,344                | 33,721               |
| Finished goods             | 76,387                | 88,901               |

Edgar Filing: CHART INDUSTRIES INC - Form 10-Q

Total inventories, net        \$ 182,227        \$ 199,302

The allowances for excess and obsolete inventory totaled \$10,484 and \$11,269 at September 30, 2016 and December 31, 2015, respectively.

8

---

Table of Contents

## CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements – September 30, 2016

(Dollars and shares in thousands, except per share amounts) – Continued

## NOTE 3 — Goodwill and Intangible Assets

During the 2015 annual assessment of goodwill, management determined that it was more likely than not that the fair value was less than the carrying amount of certain reporting units and, therefore, the two-step goodwill impairment test was necessary. Additionally, management quantitatively evaluated indefinite-lived intangible assets as part of the impairment testing. Furthermore, management identified indicators of impairment on certain finite-lived intangible assets which were evaluated for impairment. As a result of these evaluations, the Company recorded goodwill impairment charges of \$195,846, indefinite-lived intangible asset impairment charges of \$11,826, finite-lived intangible asset impairment charges of \$38,083 and long-lived asset impairment charges of \$7,657 in the fourth quarter of 2015 as management concluded that certain assets within each reporting unit were impaired.

During the third quarter of 2016, as a result of the long-lived asset impairment assessment, the Company recorded long-lived asset impairment charges on its D&S reporting unit of \$542 related to finite-lived intangible assets and \$675 related to tangible property, plant and equipment. See the Long-lived Asset Impairments section of Note 1, Basis of Preparation, to the accompanying financial statements for more information related to the asset impairments.

## Goodwill

The following table represents the changes in goodwill by segment:

|  | Energy & Chemicals | Distribution & Storage | BioMedical | Total      |
|--|--------------------|------------------------|------------|------------|
| Balance at December 31, 2015                       | \$ 27,873          | \$ 165,940             | \$ 24,577  | \$ 218,390 |
| Foreign currency translation adjustments and other | —                  | 701                    | —          | 701        |
| Balance at September 30, 2016                      | \$ 27,873          | \$ 166,641             | \$ 24,577  | \$ 219,091 |
| Accumulated goodwill impairment loss               | \$ 64,603          | \$ —                   | \$ 131,243 | \$ 195,846 |

## Intangible Assets

The following table displays the gross carrying amount and accumulated amortization for finite-lived intangible assets and indefinite-lived intangible assets (exclusive of goodwill)<sup>(1)(2)</sup>:

|                                      | September 30, 2016    |                          | December 31, 2015     |                          |
|--------------------------------------|-----------------------|--------------------------|-----------------------|--------------------------|
|                                      | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Finite-lived intangible assets:      |                       |                          |                       |                          |
| Unpatented technology                | \$8,333               | \$ (3,054 )              | \$8,530               | \$ (2,660 )              |
| Patents                              | 1,262                 | (658 )                   | 7,770                 | (6,753 )                 |
| Trademarks and trade names           | 5,002                 | (2,167 )                 | 10,052                | (6,886 )                 |
| Customer relationships               | 119,658               | (79,474 )                | 138,223               | (90,180 )                |
| Land use rights                      | 13,141                | (827 )                   | 13,484                | (567 )                   |
| Total finite-lived intangible assets | \$147,396             | \$ (86,180 )             | \$178,059             | \$ (107,046 )            |
| Indefinite-lived intangible assets:  |                       |                          |                       |                          |
| Trademarks and trade names           | \$35,697              |                          | \$35,701              |                          |

(1) Amounts include the impact of foreign currency translation. Fully amortized amounts are written off.

(2) The Company amortizes certain identifiable intangible assets primarily on a straight-line basis over their estimated useful lives, which range from one to 50 years.

Expense for intangible assets subject to amortization was \$2,912 and \$4,572 for the three months ended September 30, 2016 and 2015, respectively. Expense for intangible assets subject to amortization was \$9,156 and \$13,099 for the nine months ended September 30, 2016 and 2015, respectively. After consideration for the impairment losses recorded in the third quarter of 2016, the Company estimates amortization expense to be recognized this year and during each

of the five succeeding years as follows:

9

---

Table of Contents

## CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements – September 30, 2016

(Dollars and shares in thousands, except per share amounts) – Continued

For the Year Ending December 31,

|      |           |
|------|-----------|
| 2016 | \$ 11,800 |
| 2017 | 10,400    |
| 2018 | 9,800     |
| 2019 | 9,800     |
| 2020 | 8,200     |
| 2021 | 2,200     |

## Government Grants

The Company received \$1,055 in government grants during the first nine months of 2016. During 2015, the Company received \$8,650 in government grants. The government grants are related to property, plant and equipment and land use rights related to the expansion in China. The grants are recorded in other current liabilities and other long-term liabilities in the condensed consolidated balance sheets and recognized into income over the useful life of the associated assets (10 to 50 years). At September 30, 2016, \$463 and \$8,554 was recorded in other current liabilities and other long-term liabilities, respectively, related to the government grants. At December 31, 2015, \$368 and \$8,133 was recorded in other current liabilities and other long-term liabilities, respectively, related to the government grants.

## NOTE 4 — Debt and Credit Arrangements

## Convertible Notes

The outstanding aggregate principal amount of the Company's 2.0% Convertible Senior Subordinated Notes due 2018 (the "Convertible Notes") is \$250,000. The Convertible Notes bear interest at a fixed rate of 2.0% per year, payable semiannually in arrears on February 1 and August 1 of each year, and will mature on August 1, 2018. The effective interest rate at issuance was 7.9%.

The Convertible Notes are senior subordinated unsecured obligations of the Company and are not guaranteed by any of the Company's subsidiaries. The Convertible Notes are senior in right of payment to the Company's future subordinated debt, equal in right of payment with the Company's future senior subordinated debt and are subordinated in right of payment to the Company's existing and future senior indebtedness, including indebtedness under the Company's existing credit agreement.

In connection with the issuance of the Convertible Notes, the Company entered into privately-negotiated convertible note hedge and capped call transactions with affiliates of certain of the underwriters (the "Option Counterparties"). The convertible note hedge and capped call transactions relate to, collectively, 3,622 shares, which represents the number of shares of the Company's common stock underlying the Convertible Notes, subject to anti-dilution adjustments substantially similar to those applicable to the Convertible Notes. These convertible note hedge and capped call transactions are expected to reduce the potential dilution with respect to the Company's common stock upon conversion of the Convertible Notes and/or reduce the Company's exposure to potential cash or stock payments that may be required upon conversion of the Convertible Notes, except, in the case of the capped call transactions, to the extent that the market price per share of the Company's common stock exceeds the cap price of the capped call transactions. The Company also entered into separate warrant transactions with the Option Counterparties initially relating to the number of shares of the Company's common stock underlying the convertible note hedge transactions, subject to customary anti-dilution adjustments. The warrant transactions will have a dilutive effect with respect to the Company's common stock to the extent that the price per share of the Company's common stock exceeds the strike price of the warrants unless the Company elects, subject to certain conditions, to settle the warrants in cash. These warrants were exercisable as of the issuance date of the Convertible Notes. The cap price of the capped call transactions and the strike price of the warrant transactions was initially \$84.96 per share. Proceeds received from the issuance of the warrants totaled approximately \$48,848 and were recorded as an addition to additional paid-in-capital. The net cost of the convertible note hedge and capped call transactions, taking into account the proceeds from the issuance of the warrants, was approximately \$17,638.



In accordance with ASC 815, contracts are initially classified as equity if (1) the contract requires physical settlement or net-share settlement, or (2) the contract gives the entity a choice of net-cash settlement in its own shares (physical settlement or net-share settlement). The Company concluded that the settlement terms of the convertible note hedge, capped call and warrant transactions permit net-share settlement. As such, the convertible note hedge, capped call and warrant transactions were recorded in equity.

Table of Contents

## CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements – September 30, 2016

(Dollars and shares in thousands, except per share amounts) – Continued

Upon issuance of the Convertible Notes, the Company bifurcated the \$250,000 principal balance of the Convertible Notes into a liability component of \$170,885, which was recorded as long-term debt, and an equity component of \$79,115, which was initially recorded as additional paid-in-capital. The liability component was recognized at the present value of its associated cash flows using a 7.9% straight-debt rate which represented the Company's interest rate for similar debt instruments at that time without a conversion feature and is being accreted to interest expense over the term of the Convertible Notes. At September 30, 2016 and December 31, 2015, the carrying amount of the liability component was \$224,902 less debt issuance costs of \$1,303 and \$215,634 less debt issuance costs of \$1,836, respectively, and the unamortized debt discount of the Convertible Notes was \$25,098 and \$34,366, respectively. For the three months ended September 30, 2016 and 2015, interest expense for the Convertible Notes was \$4,400 and \$4,162, respectively, which included \$3,150 and \$2,912 of non-cash interest accretion expense related to the carrying amount of the Convertible Notes, respectively, and \$1,250 of 2.0% cash interest for both periods. For the nine months ended September 30, 2016 and 2015, interest expense for the Convertible Notes was \$13,018 and \$12,316, respectively, which included \$9,268 and \$8,566 of non-cash interest accretion expense related to the carrying amount of the Convertible Notes, respectively, and \$3,750 of 2.0% cash interest for both periods. In accordance with ASC 470-20, which requires issuers to separately account for the liability and equity components of convertible debt instruments that may be settled in cash upon conversion, the Company allocated debt issuance costs to the liability and equity components in proportion to their allocated value. Debt issuance costs were \$7,277, with \$2,303 recorded as a reduction in additional paid-in-capital. The remaining balance of \$4,974 is being amortized over the term of the Convertible Notes. For the three months ended September 30, 2016 and 2015, total expense associated with the amortization of these debt issuance costs was \$178 and \$177, respectively. For the nine months ended September 30, 2016 and 2015, total expense associated with the amortization of these debt issuance costs was \$533 for both periods. Prior to May 1, 2018, the Convertible Notes will be convertible at the option of the holders thereof only under the following circumstances: (1) during any fiscal quarter commencing after September 30, 2011 (and only during such fiscal quarter), if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the applicable conversion price (currently \$69.03) for the Convertible Notes on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the "Measurement Period") in which, as determined following a request by a holder of Convertible Notes as provided in the bond indenture (the "Indenture"), the trading price per \$1,000 principal amount of Convertible Notes for each trading day of such Measurement Period was less than 97% of the product of the last reported sale price of the Company's common stock and the applicable conversion rate for the Convertible Notes on each such trading day; or (3) upon the occurrence of specified corporate events pursuant to the terms of the Indenture. On or after May 1, 2018, until the close of business on the second scheduled trading day immediately preceding the maturity date of the Convertible Notes, holders of the Convertible Notes may convert their Convertible Notes at any time, regardless of the foregoing circumstances. Upon conversion, the Company will pay cash up to the aggregate principal amount of the Convertible Notes to be converted and pay or deliver, as the case may be, cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's election, in respect of the remainder, if any, of the Company's conversion obligation in excess of the aggregate principal amount of the Convertible Notes being converted. It is the Company's intention to settle any excess conversion value in shares of the Company's common stock.

The conversion rate on the Convertible Notes will be subject to adjustment upon the occurrence of certain events, but will not be adjusted for any accrued and unpaid interest. In addition, following the occurrence of a make-whole fundamental change, the Company will, in certain circumstances, increase the conversion rate for a holder that converts its Convertible Notes in connection with such make-whole fundamental change. The Company may not redeem the Convertible Notes prior to maturity. If the Company undergoes a fundamental change, subject to certain conditions, holders may require the Company to purchase the Convertible Notes in whole or in part for cash at a

fundamental change purchase price equal to 100% of the principal amount of the Convertible Notes to be purchased, plus accrued and unpaid interest, if any, to, but excluding, the fundamental change purchase date. For purposes of calculating earnings per share, if the average market price of the Company's common stock exceeds the applicable conversion price during the periods reported, shares contingently issuable under the Convertible Notes will have a dilutive effect with respect to the Company's common stock.

The Company reassesses the convertibility of the Convertible Notes and the related balance sheet classification on a quarterly basis. At the end of the third quarter of 2016, events for early conversion were not met, and thus the Convertible Notes were not convertible as of and for the fiscal quarter beginning October 1, 2016.

Table of Contents

## CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements – September 30, 2016

(Dollars and shares in thousands, except per share amounts) – Continued

## Senior Secured Revolving Credit Facility

The Company has a five-year \$450,000 senior secured revolving credit facility (the “SSRCF”) which matures on October 29, 2019. The SSRCF includes a \$25,000 sub-limit for the issuance of swingline loans and a \$100,000 sub-limit to be used for letters of credit. There is a foreign currency limit of \$100,000 under the SSRCF which can be used for foreign currency denominated letters of credit and borrowings in a foreign currency, in each case in currencies agreed upon with the lenders. In addition, the facility permits borrowings up to \$100,000 made by the Company’s wholly-owned subsidiaries, Chart Industries Luxembourg S.à r.l. (“Chart Luxembourg”) and Chart Asia Investment Company Limited (“Chart Asia”). The SSRCF also includes an expansion option permitting the Company to add up to an aggregate \$200,000 in term loans or revolving credit commitments from its lenders.

The Company recorded \$2,869 in deferred debt issuance costs associated with the SSRCF which are being amortized over the five-year term of the SSRCF. For the three months ended September 30, 2016 and 2015, total expense associated with the amortization of these debt issuance costs was \$143 and \$145, respectively. For the nine months ended September 30, 2016 and 2015, the related financing costs amortization was \$430 and \$436, respectively.

Revolving loans under the SSRCF bear interest, at the applicable Borrower’s election, at either LIBOR or the greatest of (a) the JPMorgan prime rate in effect on such day, (b) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1% or (c) the Adjusted LIBOR Rate (as defined in the SSRCF) for the relative interest period on such day (or if such day is not a business day, the immediately preceding business day) plus 1% (the “Adjusted Base Rate”), plus a margin that varies with the Company’s leverage ratio. In addition, the Company is required to pay a commitment fee of between 0.25% and 0.40% of the unused revolver balance and a letter of credit participation fee equal to the daily aggregate letter of credit exposure at the rate per annum equal to the Applicable Margin for Eurocurrency Revolving Facility Borrowings (ranging from 1.5% to 2.75%, depending on the leverage ratio calculated at each fiscal quarter end). A fronting fee must be paid on each letter of credit that is issued equal to 0.125% per annum of the stated dollar amount of the letter of credit.

Significant financial covenants for the SSRCF include a minimum liquidity requirement equal to the principal amount of the Convertible Notes outstanding six months prior to the maturity date of the Convertible Notes and when holders of the Convertible Notes have the option to require the Company to repurchase the Convertible Notes, a maximum leverage ratio of 3.25 and a minimum interest coverage to EBITDA ratio of 3.0. The required leverage ratio can be relaxed on up to two occasions, upon notification to the lenders, to 3.75 for up to four consecutive fiscal quarters, for acquisitions and plant expansions of \$100,000 or greater. The SSRCF contains a number of other customary covenants including, but not limited to, restrictions on the Company’s ability to incur additional indebtedness, create liens or other encumbrances, sell assets, enter into sale and lease-back transactions, make certain payments, investments, loans, advances or guarantees, make acquisitions and engage in mergers or consolidations and pay dividends or distributions. At September 30, 2016, the Company was in compliance with all covenants.

As of September 30, 2016, there were no borrowings outstanding under the SSRCF. The Company had \$34,867 in letters of credit and bank guarantees supported by the SSRCF, which had availability of \$415,133 at September 30, 2016. The obligations under the SSRCF are guaranteed by the Company and substantially all of its U.S. subsidiaries and secured by substantially all of the assets of the Company and its U.S. subsidiaries and 65% of the capital stock of the Company’s material non-U.S. subsidiaries (as defined by the SSRCF) that are owned by U.S. subsidiaries.

## Foreign Facilities – China

Chart Cryogenic Engineering Systems (Changzhou) Company Limited (“CCESC”), Chart Energy & Chemicals Wuxi Co., Ltd. (“Wuxi”) and Chart Biomedical (Chengdu) Co. Ltd. (“Chengdu”), wholly-owned subsidiaries of the Company, and Chart Cryogenic Distribution Equipment (Changzhou) Company Limited (“CCDEC”), a joint venture of the Company, maintain joint banking facilities (the “China Facilities”) which include a revolving facility with 50.0 million Chinese yuan (equivalent to \$7,487) in borrowing capacity which can be utilized for either revolving loans, bonds/guarantees, or bank draft acceptances. Any borrowings made by CCESC, CCDEC, Chengdu or Wuxi under the China Facilities are guaranteed by the Company. At September 30, 2016, CCESC, CCDEC and Wuxi had 6.6 million

Chinese yuan (equivalent to \$981), 0.04 million Chinese yuan (equivalent to \$7) and 0.7 million Chinese yuan (equivalent to \$101) in bank guarantees, respectively.

CCDEC maintains an unsecured credit facility whereby CCDEC may borrow up to 40.0 million Chinese yuan (equivalent to \$5,990) for working capital purposes. This credit facility was effective until June 30, 2016. At September 30, 2016, there was 25.0 million Chinese yuan (equivalent to \$3,744) outstanding under this facility, bearing interest at 4.35%. CCDEC has negotiated terms to replace the expired credit facility but awaits finalization. The outstanding balance of 25.0 million Chinese yuan is not impacted.

Table of Contents

CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements – September 30, 2016

(Dollars and shares in thousands, except per share amounts) – Continued

CCESC maintains an unsecured credit facility whereby CCESC may borrow up to 30.0 million Chinese yuan (equivalent to \$4,492) for working capital and bank guarantee purposes. This credit facility was effective until June 30, 2016. There were no borrowings under this facility at September 30, 2016. CCESC has negotiated terms to replace the expired credit facility but awaits finalization.

CCESC entered into a term loan during the second quarter of 2016. The term loan is secured by certain CCESC land use rights and allows for up to 86.6 million Chinese yuan (equivalent to \$12,972) in borrowings. The loan has a term of eight years with semi-annual installment payments of at least 10.0 million Chinese yuan and a final maturity date of May 26, 2024. At September 30, 2016, there was 76.6 million Chinese yuan (equivalent to \$11,474) outstanding on this loan, bearing interest at 5.39%.

Foreign Facilities – Europe

Chart Ferox, a.s. (“Ferox”), a wholly-owned subsidiary of the Company, maintains a secured credit facility with capacity of up to 125.0 million Czech koruna (equivalent to \$5,163) and two secured credit facilities with capacity of up to 6.5 million euros (equivalent to \$7,255). All three facilities allow Ferox to request bank guarantees and letters of credit. None of these facilities allow revolving credit borrowings. Under two of the facilities, Ferox must pay letter of credit and guarantee fees equal to 0.70% per annum on the face amount of each guarantee or letter of credit and under one facility Ferox must pay the letter of credit and guarantee fees equal to 0.90%. Ferox’s land, buildings and cash collateral secure the credit facilities. As of September 30, 2016, there were bank guarantees of 153.7 million Czech koruna (equivalent to \$6,348) supported by the Ferox credit facilities.

Chart Luxembourg maintains an overdraft facility with \$5,000 in borrowing capacity. There were no borrowings under the Chart Luxembourg facility as of September 30, 2016.

Fair Value Disclosures

The fair value of the Convertible Notes was approximately 99% of their par value and approximately 88% of their par value as of September 30, 2016 and December 31, 2015, respectively. The Convertible Notes are actively quoted instruments and, accordingly, the fair value of the Convertible Notes was determined using Level 1 inputs as defined in Note 8.

NOTE 5 — Derivative Financial Instruments

The Company utilizes certain derivative financial instruments to enhance its ability to manage foreign currency risk that exists as part of its ongoing business operations. Derivative instruments are entered into for periods consistent with related underlying exposures and do not constitute positions independent of those exposures. The Company does not enter into contracts for speculative purposes, nor is it a party to any leveraged derivative instruments. The Company is exposed to foreign currency exchange risk as a result of transactions in currencies other than the functional currency of certain subsidiaries. The Company utilizes foreign currency forward purchase and sale contracts to manage the volatility associated with foreign currency activity and certain intercompany transactions in the normal course of business. Contracts typically have maturities of less than one year. Principal currencies include the U.S. dollar, the euro, the Japanese yen, the Czech koruna, and the Chinese yuan. The Company’s foreign currency forward contracts do not qualify as hedges as defined by accounting guidance. Foreign currency forward contracts are measured at fair value and recorded in the condensed consolidated balance sheets as other current assets or liabilities and reported as financial assets and liabilities in Note 8. Changes in their fair value are recorded in the condensed consolidated statements of operations and comprehensive income (loss) as foreign currency gains or losses. The Company’s foreign currency forward contracts are not exchange traded instruments and, accordingly, the valuation is performed using Level 2 inputs as defined in Note 8. Gains or losses on settled or expired contracts are recorded in the condensed consolidated statements of operations and comprehensive income (loss) as foreign currency gains or losses. The changes in fair value with respect to the Company’s foreign currency forward contracts generated a net loss of \$32 and a net loss of \$934 for the three months ended September 30, 2016 and 2015, respectively. The change in fair value with respect to the Company’s foreign currency forward contracts generated a net loss of \$130 and a net gain of \$2,063 for the nine months ended September 30, 2016 and 2015, respectively.



Table of Contents

## CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements – September 30, 2016

(Dollars and shares in thousands, except per share amounts) – Continued

## NOTE 6 — Product Warranties

The Company provides product warranties with varying terms and durations for the majority of its products. The Company estimates its warranty reserve by considering historical and projected warranty claims, historical and projected cost-per-claim and knowledge of specific product issues that are outside its typical experience. The Company records warranty expense in cost of sales. Product warranty claims not expected to occur within one year are recorded in the long-term portion of the warranty reserve in the condensed consolidated balance sheets. During the third quarter of 2016, the Company recovered for breaches of representations and warranties primarily related to warranty costs for certain product lines acquired in the 2012 acquisition of AirSep Corporation (“AirSep”) under the related representation and warranty insurance. For the three and nine months ended September 30, 2016, this reduced our BioMedical segment’s cost of sales by \$15,145. Warranty expense for 2016 in the table below does not include the impact of this recovery.

The following table represents changes in the Company’s consolidated warranty reserve:

|                              |          |
|------------------------------|----------|
| Balance at December 31, 2015 | \$20,975 |
|------------------------------|----------|

|                  |       |
|------------------|-------|
| Warranty expense | 5,764 |
|------------------|-------|

|                |          |
|----------------|----------|
| Warranty usage | (9,484 ) |
|----------------|----------|

|                               |          |
|-------------------------------|----------|
| Balance at September 30, 2016 | \$17,255 |
|-------------------------------|----------|

## NOTE 7 — Business Combinations

## Thermax Acquisition

On July 1, 2015, the Company acquired 100% of the equity interests of Thermax, Inc. (“Thermax”) for an estimated purchase price of \$29,687 after working capital adjustments, of which \$24,197 was paid at closing (net of \$2,307 in cash acquired). The purchase price was subject to post-closing adjustments. As a result of these post-closing adjustments, the final working capital adjustment of \$1,383 was paid during the second quarter of 2016. The remainder of the purchase price represents the estimated fair value of the contingent consideration to be paid over four years based on the achievement of certain earnings targets. The fair value of the net assets acquired and goodwill at the date of acquisition was \$19,332 and \$10,355, respectively. Net assets includes \$10,000 in intangible assets, which consists of customer relationships, unpatented technology and trademarks and trade names.

Thermax, headquartered in Dartmouth, Massachusetts, designs and sells cryogenic fluid vaporizers and other ambient and powered vaporizer products utilized in industrial gas, petrochemical, and liquefied natural gas (“LNG”) applications. Thermax’s results are included in the Company’s D&S business segment from the date of acquisition.

## Contingent Consideration

The estimated fair value of contingent consideration relating to the Thermax acquisition was \$1,800 at the date of acquisition and was valued according to a discounted cash flow model, which includes assumptions regarding the probability of achieving certain earnings targets and a discount rate applied to the potential payments. Potential payments may be paid between July 1, 2017 and July 1, 2019 based on the attainment of certain earnings targets. The potential payments related to Thermax contingent consideration is between \$0 and \$11,288. During the three and nine months ended September 30, 2016, the Company made no contingent consideration payments related to Thermax. The fair value of the Thermax contingent consideration at September 30, 2016 was \$1,883. For the three and nine months ended September 30, 2016, the estimated fair value of contingent consideration related to Thermax increased by \$75 and \$122, respectively.

|                              |         |
|------------------------------|---------|
| Balance at December 31, 2015 | \$1,761 |
|------------------------------|---------|

|  |     |
|--|-----|
| Increase in fair value of contingent consideration liabilities | 122 |
|--|-----|

|                               |         |
|-------------------------------|---------|
| Balance at September 30, 2016 | \$1,883 |
|-------------------------------|---------|

The potential contingent consideration related to a prior BioMedical segment acquisition expired at the end of March 2016 with no additional payment. During the second quarter of 2015, the Company made a \$611 contingent consideration payment related to the BioMedical segment. For the nine months ended September 30, 2015, the fair value of contingent consideration related to the BioMedical segment decreased by \$463.



Valuations are performed using Level 3 inputs as defined in Note 8 and are evaluated on a quarterly basis based on forecasted sales and earnings targets. Contingent consideration liabilities are classified as other current liabilities and other long-term liabilities

Table of Contents

## CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements – September 30, 2016

(Dollars and shares in thousands, except per share amounts) – Continued

in the condensed consolidated balance sheets. Changes in fair value of contingent consideration, including accretion, are recorded as selling, general and administrative expenses in the condensed consolidated statements of operations and comprehensive income (loss).

## NOTE 8 — Fair Value Measurements

The Company measures its financial assets and liabilities at fair value on a recurring basis using a three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies. The three levels of inputs used to measure fair value are as follows:

Level 1 — Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2 — Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 — Valuations based on unobservable inputs reflect the Company's assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

Financial assets and liabilities measured at fair value on a recurring basis and presented in the Company's condensed consolidated balance sheets are as follows:

|                                      | September 30, 2016 |         |         |
|--------------------------------------|--------------------|---------|---------|
|                                      | Total              | Level 2 | Level 3 |
| Foreign currency forward contracts   | \$14               | \$14    | \$—     |
| Total financial assets               | \$14               | \$14    | \$—     |
| Foreign currency forward contracts   | \$158              | \$158   | \$—     |
| Contingent consideration liabilities | 1,883              | —       | 1,883   |
| Total financial liabilities          | \$2,041            | \$158   | \$1,883 |
|                                      | December 31, 2015  |         |         |
|                                      | Total              | Level 2 | Level 3 |
| Foreign currency forward contracts   | \$561              | \$561   | \$—     |
| Total financial assets               | \$561              | \$561   | \$—     |
| Foreign currency forward contracts   | \$470              | \$470   | \$—     |
| Contingent consideration liabilities | 1,761              | —       | 1,761   |
| Total financial liabilities          | \$2,231            | \$470   | \$1,761 |

Refer to Note 5 for further information regarding derivative financial instruments and Note 7 for further information regarding contingent consideration liabilities.

Table of Contents

## CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements – September 30, 2016

(Dollars and shares in thousands, except per share amounts) – Continued

## NOTE 9 — Equity

## Accumulated Other Comprehensive Loss

The following tables represent changes in accumulated other comprehensive (loss) income by component:

|   | Foreign<br>currency<br>translation<br>adjustments | Pension<br>liability<br>adjustments,<br>net of taxes | Accumulated<br>other<br>comprehensive<br>(loss) income |
|---|---|--|--|
| Balance at June 30, 2016  | \$ (12,506 )                                      | \$ (11,892 )   | \$ (24,398 )   |
| Other comprehensive income  | 21  | —  | 21   |
| Amounts reclassified from accumulated other comprehensive (loss) income,<br>net of income taxes of \$135 <sup>(1)</sup> | —   | 250  | 250  |
| Net current-period other comprehensive income, net of taxes   | 21  | 250  | 271  |
| Balance at September 30, 2016   | \$ (12,485 )                                      | \$ (11,642 )   | \$ (24,127 )   |
|   | Foreign<br>currency<br>translation<br>adjustments | Pension<br>liability<br>adjustments,<br>net of taxes | Accumulated<br>other<br>comprehensive<br>(loss) income |
| Balance at June 30, 2015  | \$ (1,812 )                                       | \$ (12,029 )   | \$ (13,841 )   |
| Other comprehensive loss  | (6,193 )  | —  | (6,193 )   |
| Amounts reclassified from accumulated other comprehensive (loss) income,<br>net of income taxes of \$126 <sup>(1)</sup> | —   | 231  | 231  |
| Net current-period other comprehensive (loss) income, net of taxes  | (6,193 )  | 231  | (5,962 )   |
| Balance at September 30, 2015   | \$ (8,005 )                                       | \$ (11,798 )   | \$ (19,803 )   |
|   | Foreign<br>currency<br>translation<br>adjustments | Pension<br>liability<br>adjustments,<br>net of taxes | Accumulated<br>other<br>comprehensive<br>(loss) income |
| Balance at December 31, 2015  | \$ (12,513 )                                      | \$ (12,391 )   | \$ (24,904 )   |
| Other comprehensive income  | 28  | —  | 28   |
| Amounts reclassified from accumulated other comprehensive (loss) income,<br>net of income taxes of \$404 <sup>(2)</sup> | —   | 749  | 749  |
| Net current-period other comprehensive income, net of taxes   | 28  | 749  | 777  |
| Balance at September 30, 2016   | \$ (12,485 )                                      | \$ (11,642 )   | \$ (24,127 )   |
|   | Foreign<br>currency<br>translation<br>adjustments | Pension<br>liability<br>adjustments,<br>net of taxes | Accumulated<br>other<br>comprehensive<br>(loss) income |
| Balance at December 31, 2014  | \$ 3,808  | \$ (12,494 )   | \$ (8,686 )  |
| Other comprehensive loss  | (11,813 )   | —  | (11,813 )  |
| Amounts reclassified from accumulated other comprehensive (loss) income,<br>net of income taxes of \$375 <sup>(2)</sup> | —   | 696  | 696  |
| Net current-period other comprehensive (loss) income, net of taxes  | (11,813 )   | 696  | (11,117 )  |
| Balance at September 30, 2015   | \$ (8,005 )                                       | \$ (11,798 )   | \$ (19,803 )   |

Table of Contents

## CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements – September 30, 2016

(Dollars and shares in thousands, except per share amounts) – Continued

(1) Amounts reclassified from accumulated other comprehensive (loss) income were expensed and included in cost of sales (\$152 and \$140 for the three months ended September 30, 2016 and 2015, respectively) and selling, general and administrative expenses (\$233 and \$217 for the three months ended September 30, 2016 and 2015, respectively) in the condensed consolidated statements of operations and comprehensive income (loss). The components in accumulated other comprehensive (loss) income are included in the computation of net periodic pension expense (income) as reported in Note 11.

(2) Amounts reclassified from accumulated other comprehensive (loss) income were expensed and included in cost of sales (\$454 and \$421 for the nine months ended September 30, 2016 and 2015, respectively) and selling, general and administrative expenses (\$699 and \$650 for the nine months ended September 30, 2016 and 2015, respectively) in the condensed consolidated statements of operations and comprehensive income (loss). The components in accumulated other comprehensive income (loss) are included in the computation of net periodic pension expense (income) as reported in Note 11.

**Earnings Per Share**

The following table presents calculations of net income per share of common stock:

|  | Three Months<br>Ended<br>September 30, |          | Nine Months<br>Ended September<br>30, |           |
|--|--|----------|---------------------------------------|-----------|
|  | 2016                                   | 2015     | 2016                                  | 2015      |
| Net income attributable to Chart Industries, Inc.                                      | \$ 15,025                              | \$ 4,760 | \$ 31,527                             | \$ 27,163 |
| Net income attributable to Chart Industries, Inc. per common share:                    |  |          |                                       |           |
| Basic  | \$0.49                                 | \$0.16   | \$1.03                                | \$0.89    |
| Diluted  | \$0.48                                 | \$0.15   | \$1.02                                | \$0.88    |
| Weighted average number of common shares outstanding — basic                           | 30,585                                 | 30,498   | 30,578                                | 30,487    |
| Incremental shares issuable upon assumed conversion and exercise of share-based awards | 479                                    | 247      | 362                                   | 206       |
| Weighted average number of common shares outstanding — diluted                         | 31,064                                 | 30,745   | 30,940                                | 30,693    |

Diluted earnings per share does not reflect the following potential common shares as the effect would be anti-dilutive:

|                                | Three<br>Months<br>Ended<br>September<br>30, |       | Nine<br>Months<br>Ended<br>September<br>30, |       |
|--------------------------------|--|-------|---|-------|
|                                | 2016   | 2015  | 2016  | 2015  |
| Share-based awards             | 555  | 566   | 750   | 566   |
| Warrants                       | 3,368  | 3,368 | 3,368                                       | 3,368 |
| Total anti-dilutive securities | 3,923  | 3,934 | 4,118                                       | 3,934 |

**NOTE 10 — Income Taxes**

The effective income tax rate of 11.4% and 31.0% for the three and nine months ended September 30, 2016 differed from the U.S. federal statutory rate of 35% primarily due to an insurance recovery for breaches of representations and warranties primarily related to warranty costs that resulted in an adjustment to our purchase price of AirSep shares for tax purposes and offset by losses incurred by certain of the Company's Chinese operations for which no benefit was recorded. The effective income tax rate of 58.8% and 36.5% for the three and nine months ended September 30, 2015 differed from the U.S. federal statutory rate of 35% primarily due to the addition of a \$1,607 valuation allowance on certain accumulated tax loss balances and the effect of losses incurred by certain of the Company's international

entities operating in lower taxed jurisdictions.

As of September 30, 2016, the Company has a liability for gross unrecognized tax benefits of \$805 recorded. This amount includes \$590 of unrecognized tax benefits which, if ultimately recognized, will reduce the Company's annual effective income tax rate. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of September 30, 2016, the Company had accrued approximately \$109 for the payment of interest and penalties.

17

---

Table of Contents

## CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements – September 30, 2016

(Dollars and shares in thousands, except per share amounts) – Continued

## NOTE 11 — Employee Benefit Plans

The Company has a defined benefit pension plan which is frozen, that covers certain U.S. hourly and salaried employees. The defined benefit plan provides benefits based primarily on the participants' years of service and compensation. The following table represents the components of net periodic pension expense:

|                                    | Three<br>Months<br>Ended<br>September<br>30, |        | Nine Months<br>Ended<br>September 30, |          |
|------------------------------------|--|--------|---------------------------------------|----------|
|                                    | 2016   | 2015   | 2016                                  | 2015     |
| Interest cost                      | \$572  | \$572  | \$1,714                               | \$1,715  |
| Expected return on plan assets     | (698 )                                       | (800 ) | (2,092 )                              | (2,399 ) |
| Amortization of net loss           | 385  | 357    | 1,153                                 | 1,071    |
| Total net periodic pension expense | \$259  | \$129  | \$775                                 | \$387    |

## NOTE 12 — Share-based Compensation

During the nine months ended September 30, 2016, the Company granted 561 stock options, 283 restricted stock units and 58 performance units, while non-employee directors received 23 stock awards with a fair value of \$487. During the nine months ended September 30, 2016, participants in the Company's stock option plans exercised options to purchase 1 shares of the Company's common stock, while 44 stock options were forfeited and 37 stock options expired.

Stock options generally vest ratably over a four-year vesting period. Restricted stock and restricted stock units generally vest ratably over a three-year period, and performance units and leveraged restricted share units generally vest at the end of a three-year performance period based on the achievement of certain performance conditions.

During the nine months ended September 30, 2016, 75 restricted stock and restricted stock units vested while 22 shares of restricted stock and restricted stock units were forfeited. Also, during the nine months ended September 30, 2016, 39 performance units vested while 6 performance units were forfeited. Additionally, during the nine months ended September 30, 2016, 14 leveraged restricted share units vested.

Share-based compensation expense was \$1,826 and \$1,417 for the three months ended September 30, 2016 and 2015, respectively. Share-based compensation expense was \$9,014 and \$9,203 for the nine months ended September 30, 2016 and 2015, respectively. Share-based compensation expense is included in selling, general and administrative expenses in the condensed consolidated statements of operations and comprehensive income (loss). As of September 30, 2016, total share-based compensation of \$7,626 is expected to be recognized over the weighted-average period of approximately 2.0 years.

## NOTE 13 — Restructuring Activities

Due to economic conditions, including low energy prices and global competition, the Company implemented a number of cost reduction or avoidance actions during 2015 and 2016, including headcount reductions. During the three and nine months ended September 30, 2016, the Company incurred severance and other restructuring charges of \$202 and \$5,883 associated with headcount reductions in all of its segments. These charges were recorded in cost of sales (\$159 and \$2,432 for the three and nine months ended September 30, 2016) and selling, general, and administrative expenses (\$43 and \$3,451 for the three and nine months ended September 30, 2016) in the condensed consolidated statements of operations. The Company is closely monitoring its end markets and order rates and will continue to take appropriate and timely actions as necessary.

During 2015, Chart announced its intention to close certain D&S leased facilities. These closures were cost reduction measures in response to lower orders within D&S. Total cost incurred during 2015 related to these closures was \$4,810. For the three and nine months ended September 30, 2015, charges incurred related to these closures were \$2,800 and \$4,100, respectively, and included lease exit costs, long-lived asset impairments, and other miscellaneous

costs. These charges were recorded in cost of sales (\$400 and \$1,700 for the three and nine months ended September 30, 2015) and selling, general and administrative expenses (\$2,400 for both the three and nine months ended September 30, 2015) in the condensed consolidated statements of operations. The remaining accrual for the facility restructuring costs within D&S as of September 30, 2016 was \$2,380. These costs are expected to be paid out over the terms of the associated leases which are expected to end in 2023.

Table of Contents

## CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements – September 30, 2016

(Dollars and shares in thousands, except per share amounts) – Continued

The following tables summarize the Company's restructuring activities for the three and nine months ended September 30, 2016:

|                                  | Three Months Ended September 30, |                           |            |           |          |
|----------------------------------|----------------------------------|---------------------------|------------|-----------|----------|
|                                  | Energy<br>&<br>Chemicals         | Distribution<br>& Storage | BioMedical | Corporate | Total    |
| Balance as of June 30, 2016      | \$544                            | \$ 4,796                  | \$ 368     | \$ 276    | \$5,984  |
| Restructuring charges            | 159                              | 43                        | —          | —         | 202      |
| Cash payments and other          | (267 )                           | (1,085 )                  | (168 )     | (191 )    | (1,711 ) |
| Balance as of September 30, 2016 | \$436                            | \$ 3,754                  | \$ 200     | \$ 85     | \$4,475  |
|                                  | Nine Months Ended September 30,  |                           |            |           |          |
|                                  | Energy<br>&<br>Chemicals         | Distribution<br>& Storage | BioMedical | Corporate | Total    |
| Balance as of January 1, 2016    | \$1,106                          | \$ 3,446                  | \$ 430     | \$ 850    | \$5,832  |
| Restructuring charges            | 821                              | 3,807                     | 521        | 734       | 5,883    |
| Cash payments and other          | (1,491 )                         | (3,499 )                  | (751 )     | (1,499 )  | (7,240 ) |
| Balance as of September 30, 2016 | \$436                            | \$ 3,754                  | \$ 200     | \$ 85     | \$4,475  |



Table of Contents

## CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements – September 30, 2016

(Dollars and shares in thousands, except per share amounts) – Continued

## NOTE 14 — Reportable Segments

The structure of the Company's internal organization is divided into the following reportable segments, which are also the Company's operating segments: Energy & Chemicals ("E&C"), Distribution & Storage ("D&S") and BioMedical. Corporate includes operating expenses for executive management, accounting, tax, treasury, human resources, information technology, legal, internal audit and risk management.

The following table represents information for the Company's reportable segments and its corporate function:

|  | Three Months Ended |           | Nine Months Ended |           |
|--|--------------------|-----------|-------------------|-----------|
|  | September 30,      |           | September 30,     |           |
|  | 2016               | 2015      | 2016              | 2015      |
| Sales                                      |                    |           |                   |           |
| Energy & Chemicals                         | \$23,711           | \$78,388  | \$122,865         | \$257,197 |
| Distribution & Storage                     | 126,646            | 129,590   | 363,743           | 356,474   |
| BioMedical                                 | 53,573             | 56,069    | 158,174           | 165,733   |
| Consolidated                               | \$203,930          | \$264,047 | \$644,782         | \$779,404 |
| Operating Income (Loss) <sup>(1) (2)</sup> |                    |           |                   |           |
| Energy & Chemicals                         | \$(5,736 )         | \$10,795  | \$14,190          | \$45,626  |
| Distribution & Storage                     | 14,715             | 8,027     | 37,550            | 29,184    |
| BioMedical                                 | 20,916             | 5,966     | 38,120            | 15,202    |
| Corporate                                  | (9,831 )           | (9,179 )  | (34,820 )         | (34,317 ) |
| Consolidated                               | \$20,064           | \$15,609  | \$55,040          | \$55,695  |

As described in Note 1, beginning in 2016, the Company allocates share-based compensation expense to each operating segment and maintains share-based compensation expense related to Corporate employees at Corporate. Prior to 2016, all share-based compensation expense was recorded at Corporate. Reclassifications from Corporate to the operating segments have been made to the 2015 results to conform to the 2016 presentation.

During the third quarter of 2016, the Company recovered for breaches of representations and warranties primarily related to warranty costs for certain product lines acquired in the 2012 acquisition of AirSep Corporation under the related representation and warranty insurance. For the three months ended September 30, 2016, this reduced our BioMedical segment's cost of sales by \$15,145 and Corporate SG&A expenses by \$859, net of associated legal fees. For the nine months ended September 30, 2016, this reduced our BioMedical segment's cost of sales by \$15,145 and Corporate SG&A expenses by \$376, net of associated legal fees recorded in the first nine months of the year.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Chart Industries, Inc. (the "Company," "Chart," or "we") is a leading diversified global manufacturer of highly engineered equipment for the industrial gas, energy and biomedical industries. A large portion of the end-use applications for our products is energy-related. Our equipment and engineered systems are primarily used for low-temperature and cryogenic applications utilizing our expertise in cryogenic systems and equipment, which operate at low temperatures sometimes approaching absolute zero (0 kelvin; -273° Centigrade; -459° Fahrenheit).

Sales for the nine months ended September 30, 2016 were \$644.8 million compared to sales of \$779.4 million for the nine months ended September 30, 2015, reflecting a decrease of \$134.6 million, or 17.3%. This decrease was primarily attributable to lower sales in our E&C segment across all product lines given continued challenging energy market conditions. Gross profit for the nine months ended September 30, 2016 was \$209.3 million, or 32.5% of sales, as compared to \$215.7 million, or 27.7% of sales, for the nine months ended September 30, 2015. Gross profit decreased during the first nine months of 2016 mainly due to lower throughput and highly competitive markets within our E&C segment partially offset by improved product mix in our D&S segment and BioMedical segment. Also contributing to gross profit was the positive impact of an insurance recovery received by our BioMedical segment during the third quarter of 2016 as a result of the recovery for breaches of representations and warranties related to warranty costs for certain product lines acquired from AirSep Corporation ("AirSep") in 2012. The insurance recovery favorably impacted our gross profit by \$15.1 million and our gross margin percentage by 2.4%. The gross margin was also favorably impacted by improved project mix within our E&C segment, which included multiple high margin short lead-time replacement equipment projects in addition to contract expiration fees during the second quarter of 2016. Severance expenses of \$5.9 million related to restructuring activities were recorded in the first nine months of 2016 in cost of goods sold (\$3.5 million) and selling, general and administrative expenses (\$2.4 million) as a result of our cost reduction initiatives. Operating income for the nine months ended September 30, 2016 was \$55.0 million compared to \$55.7 million for the nine months ended September 30, 2015, for the reasons discussed above.

Low energy prices continue to delay upstream LNG opportunities, which has negatively impacted our sales and order trends, particularly in the E&C segment. In addition, macroeconomic headwinds and global competition continue to put pressure on pricing generally. Due to the uncertainty surrounding the price of oil and its impact on natural gas projects and our business, we continue to face challenges in the timing of orders. We have continued to reduce our cost structure in light of the downturn in the markets we serve. We are closely monitoring our end markets and order rates and will continue to take appropriate and timely actions as necessary.

Table of Contents

The following table represents selected financial data for our operating segments for the three and nine months ended September 30, 2016 and 2015 (dollars in thousands):

|   | Three Months Ended    |           | Nine Months Ended     |           |   |
|---|-----------------------|-----------|-----------------------|-----------|---|
|   | September 30,<br>2016 | 2015      | September 30,<br>2016 | 2015      |   |
| <b>Sales</b>                                  |                       |           |                       |           |   |
| Energy & Chemicals                            | \$23,711              | \$78,388  | \$122,865             | \$257,197 |   |
| Distribution & Storage                        | 126,646               | 129,590   | 363,743               | 356,474   |   |
| BioMedical                                    | 53,573                | 56,069    | 158,174               | 165,733   |   |
| Consolidated                                  | \$203,930             | \$264,047 | \$644,782             | \$779,404 |   |
| <b>Gross Profit <sup>(1)</sup></b>            |                       |           |                       |           |   |
| Energy & Chemicals                            | \$1,803               | \$18,345  | \$39,147              | \$70,888  |   |
| Distribution & Storage                        | 33,429                | 30,984    | 96,074                | 89,517    |   |
| BioMedical                                    | 34,391                | 18,960    | 74,054                | 55,287    |   |
| Consolidated                                  | \$69,623              | \$68,289  | \$209,275             | \$215,692 |   |
| <b>Gross Profit Margin</b>                    |                       |           |                       |           |   |
| Energy & Chemicals                            | 7.6                   | % 23.4    | % 31.9                | % 27.6    | % |
| Distribution & Storage                        | 26.4                  | % 23.9    | % 26.4                | % 25.1    | % |
| BioMedical                                    | 64.2                  | % 33.8    | % 46.8                | % 33.4    | % |
| Consolidated                                  | 34.1                  | % 25.9    | % 32.5                | % 27.7    | % |
| <b>SG&amp;A Expenses <sup>(1) (2)</sup></b>   |                       |           |                       |           |   |
| Energy & Chemicals                            | \$7,050               | \$6,854   | \$23,295              | \$23,169  |   |
| Distribution & Storage                        | 15,978                | 21,262    | 52,517                | 56,094    |   |
| BioMedical                                    | 12,601                | 10,831    | 33,288                | 33,375    |   |
| Corporate                                     | 9,801                 | 9,161     | 34,762                | 34,260    |   |
| Consolidated                                  | \$45,430              | \$48,108  | \$143,862             | \$146,898 |   |
| <b>SG&amp;A Expenses (% of Sales)</b>         |                       |           |                       |           |   |
| Energy & Chemicals                            | 29.7                  | % 8.7     | % 19.0                | % 9.0     | % |
| Distribution & Storage                        | 12.6                  | % 16.4    | % 14.4                | % 15.7    | % |
| BioMedical                                    | 23.5                  | % 19.3    | % 21.0                | % 20.1    | % |
| Consolidated                                  | 22.3                  | % 18.2    | % 22.3                | % 18.8    | % |
| <b>Operating Income (Loss) <sup>(1)</sup></b> |                       |           |                       |           |   |
| Energy & Chemicals                            | \$(5,736 )            | \$10,795  | \$14,190              | \$45,626  |   |
| Distribution & Storage                        | 14,715                | 8,027     | 37,550                | 29,184    |   |
| BioMedical                                    | 20,916                | 5,966     | 38,120                | 15,202    |   |
| Corporate                                     | (9,831 )              | (9,179 )  | (34,820 )             | (34,317 ) |   |
| Consolidated                                  | \$20,064              | \$15,609  | \$55,040              | \$55,695  |   |
| <b>Operating Margin</b>                       |                       |           |                       |           |   |
| Energy & Chemicals                            | (24.2 )               | % 13.8    | % 11.5                | % 17.7    | % |
| Distribution & Storage                        | 11.6                  | % 6.2     | % 10.3                | % 8.2     | % |
| BioMedical                                    | 39.0                  | % 10.6    | % 24.1                | % 9.2     | % |
| Consolidated                                  | 9.8                   | % 5.9     | % 8.5                 | % 7.1     | % |

<sup>(1)</sup> During the third quarter of 2016, the Company recovered for breaches of representations and warranties primarily related to warranty costs for certain product lines acquired in the 2012 acquisition of AirSep under the related representation and warranty insurance. For the three months ended September 30, 2016, this reduced our BioMedical segment's cost of sales by \$15,145 and Corporate SG&A expenses by \$859, net of associated legal fees. For the nine months ended September 30, 2016, this reduced our BioMedical segment's cost of sales by

\$15,145 and Corporate SG&A expenses by \$376, net of associated legal fees recorded in the first nine months of the year.

- (2) Beginning in 2016, the Company allocates share-based compensation expense to each operating segment and maintains share-based compensation expense related to Corporate employees at Corporate. Prior to 2016, all share-based compensation expense was recorded at Corporate. Reclassifications from Corporate to the operating segments have been made to the 2015 SG&A expenses to conform to the 2016 presentation.

Table of Contents

## Results of Operations for the Three Months Ended September 30, 2016 Compared to the Three Months Ended September 30, 2015

## Sales

Sales for the three months ended September 30, 2016 were \$203.9 million compared to \$264.0 million for the three months ended September 30, 2015, reflecting a decrease of \$60.1 million, or 22.8%.

E&C segment sales decreased by \$54.7 million, or 69.8%, compared to the prior-year period. This reduction was due to a \$26.3 million decrease within LNG applications and a \$24.3 million decrease within natural gas processing (including petrochemical) applications. Low energy prices have the most pronounced impact on our E&C segment. Additionally, our E&C segment completed several major projects in 2015 that are not expected to recur in 2016 as customers continue to delay or defer large projects.

D&S segment sales decreased by \$2.9 million, or 2.3%, compared to the prior-year period, primarily attributable to a \$7.7 million decrease within LNG applications, particularly in Asia and the U.S. as Europe LNG applications are up slightly versus the prior year quarter. This decrease was partially offset by a \$2.8 million increase related to packaged gas industrial applications and a \$2.0 million increase within bulk industrial gas applications, particularly in the U.S. The overall currency translation impact on sales attributable to the D&S segment was approximately \$1.1 million unfavorable on a constant currency basis.

BioMedical segment sales decreased by \$2.5 million, or 4.5%, compared to the prior-year period. The overall decrease was driven by a \$2.7 million decrease in respiratory therapy equipment sales and a \$0.7 million decrease in commercial oxygen generation systems sales. These decreases were partially offset by an increase in life sciences sales of \$0.9 million during the quarter as a result of higher sales in Asia and the U.S.

## Gross Profit and Margin

Gross profit for the three months ended September 30, 2016 was \$69.6 million, or 34.1% of sales, versus \$68.3 million, or 25.9% of sales for the three months ended September 30, 2015, which reflected an increase of \$1.3 million, while the related margin percentage increased by 8.2 percentage points. Gross profit and the related margin for the three months ended September 30, 2016 were positively impacted by an insurance recovery at our BioMedical segment as further described in this section. For the three months ended September 30, 2015, the insurance recovery added 7.4% to the margin. The favorable impact of the insurance recovery was offset by decreased gross profits resulting from lower sales volumes at our E&C segment.

E&C segment gross profit decreased by \$16.5 million and the related margin decreased by 15.8 percentage points primarily due to decreased volumes within all product lines as a result of the continued challenging energy market conditions and the impact of excess capacity as a result of lower operating levels.

D&S segment gross profit increased by \$2.4 million, and the related margin increased by 2.5 percentage points primarily due to lower restructuring-related costs and increased efficiencies in the U.S. and Europe compared to the prior-year period. These favorable impacts were partially offset by inventory write-downs in Asia.

BioMedical segment gross profit increased by \$15.4 million, and the related margin increased by 30.4 percentage points compared to the prior-year period, primarily due to an insurance recovery along with the impact of lower warranty expenses and improved product mix. During the third quarter of 2016, we recovered for breaches of representations and warranties primarily related to warranty costs for certain product lines acquired in the 2012 acquisition of AirSep under the related representation and warranty insurance. For the three months ended September 30, 2016, this reduced BioMedical's cost of sales by \$15.1 million and added 28.3% to the margin. The BioMedical segment's warranty expense as a percent of sales was 0.9% during the three months ended September 30, 2016 compared to 4.3% in the prior-year quarter. Warranty expense has decreased due to lower than expected return rates on certain products and improved product mix.

## Selling, General &amp; Administrative Expenses ("SG&amp;A")

SG&A expenses for the three months ended September 30, 2016 were \$45.4 million, or 22.3% of sales, compared to \$48.1 million, or 18.2% of sales, for the three months ended September 30, 2015, representing a decrease of \$2.7 million. SG&A expenses related to restructuring activities for the three months ended September 30, 2015 included \$3.9 million of restructuring costs relating to the Owatonna facility shutdown and other severance costs. Additionally,

SG&A expenses were lower compared to the prior-year quarter primarily due to lower payroll and other discretionary spending, partially offset by higher variable short-term incentive compensation as a result of strong operating income in the quarter.

Beginning in 2016, we allocate share-based compensation expense to each operating segment and maintain share-based compensation expense related to Corporate employees at Corporate. Prior to 2016, all share-based compensation expense was recorded at Corporate. Reclassifications from Corporate to the operating segments have been made to the 2015 SG&A to conform to the 2016 presentation.

Table of Contents

E&C segment SG&A expenses increased by \$0.2 million compared to the prior-year period as lower payroll and short-term incentives were offset by higher severance and marketing expenses.

D&S segment SG&A expenses decreased by \$5.3 million compared to the prior-year period primarily due to decreased restructuring related expenses, lower employee costs due to headcount reductions and other discretionary spending. These decreases were partially offset by higher variable short-term incentive compensation.

BioMedical segment SG&A expenses increased by \$1.8 million compared to the prior-year period primarily due to higher variable short-term incentive compensation and bad debt expense.

Corporate SG&A expenses increased by \$0.6 million compared to the prior-year period primarily due to higher variable short-term incentive compensation partially offset by lower outside professional services.

**Amortization Expense**

Amortization expense decreased \$1.7 million compared to the prior-year period primarily due to the impact of intangible assets that were written off in the fourth quarter of 2015.

**Asset Impairment**

During the third quarter of 2016, we recorded asset impairment charges of \$1.2 million attributed to our D&S segment. See the Long-lived Asset Impairments section of Note 1, Basis of Preparation, to the accompanying financial statements for more information related to the asset impairment. During the three months ended September 30, 2015, we recorded asset impairments of \$1.6 million attributed to our D&S segment and these charges were included in cost of sales on the condensed consolidated statements of operations.

**Operating Income**

As a result of the foregoing, operating income for the three months ended September 30, 2016 was \$20.1 million, an increase of \$4.5 million, or 9.8% of sales, compared to operating income of \$15.6 million, or 5.9% of sales, for the same period in 2015.

**Interest Expense, Net and Financing Costs Amortization**

Net interest expense for the three months ended September 30, 2016 and 2015 was \$4.3 million and \$4.1 million, respectively. Interest expense for the three months ended September 30, 2016 included \$1.3 million of 2.0% cash interest and \$3.2 million of non-cash interest accretion expense related to the carrying value of the Convertible Notes. For each of the three months ended September 30, 2016 and 2015, financing costs amortization was \$0.3 million.

**Income Tax Expense**

Income tax expense of \$1.8 million and \$6.1 million for the three months ended September 30, 2016 and 2015, respectively, represents taxes on both U.S. and foreign earnings at a combined effective income tax rate of 11.4% and 58.8%, respectively. The decrease in the effective income tax rate was primarily due to the insurance recovery for breaches of representations and warranties that resulted in an adjustment to our purchase price of AirSep shares for tax purposes, offset by losses incurred by certain of our Chinese operations for which no tax benefit was recorded.

**Net Income**

As a result of the foregoing, net income attributable to the Company for the three months ended September 30, 2016 and 2015 was \$15.0 million and \$4.8 million, respectively.

**Results of Operations for the Nine Months Ended September 30, 2016 Compared to the Nine Months Ended September 30, 2015**

**Sales**

Sales for the nine months ended September 30, 2016 were \$644.8 million compared to \$779.4 million for the nine months ended September 30, 2015, reflecting a decrease of \$134.6 million, or 17.3%.

E&C segment sales decreased by \$134.3 million, or 52.2%, compared to the prior-year period. This reduction was due to lower sales of LNG applications of \$70.9 million, a \$58.2 million decrease within natural gas processing (including petrochemical) applications and a decline in industrial gas applications of \$5.2 million. Low energy prices have the most pronounced impact on our E&C segment. Additionally, our E&C segment completed several major projects in 2015 that are not expected to recur in 2016 as customers delay or defer large projects.





Table of Contents

D&S segment sales increased by \$7.3 million, or 2.0%, compared to the prior-year period, primarily attributable to a \$16.5 million increase within bulk industrial gas applications. This increase was partially offset by a \$4.9 million decrease within LNG applications and a \$4.3 million decrease related to packaged gas industrial applications. Continued weakness in China was offset by improved sales in Europe and the U.S. compared to the first nine months of 2015.

BioMedical segment sales decreased by \$7.6 million, or 4.6%, compared to the prior-year period. This decrease was driven by a \$7.9 million decrease in U.S. respiratory therapy equipment sales and a decrease in commercial oxygen generation systems of \$4.2 million, primarily attributable to Asia. These decreases were partially offset by an increase in life sciences of \$4.5 million during the first nine months of 2016.

**Gross Profit and Margin**

Gross profit for the nine months ended September 30, 2016 was \$209.3 million, or 32.5% of sales, versus \$215.7 million, or 27.7% of sales for the nine months ended September 30, 2015, which reflected a decrease of \$6.4 million, while the related margin percentage increased by 4.8% percentage points. Gross profit and the related margin for the nine months ended September 30, 2016 were positively impacted by an insurance recovery during the third quarter at our BioMedical segment as further described in this section. For the nine months ended September 30, 2016, the insurance recovery added 2.4% to the margin. The favorable impact of the insurance recovery was offset by decreased gross profits resulting from lower sales volumes at our E&C segment.

E&C segment gross profit decreased by \$31.7 million primarily due to decreased volume within LNG and natural gas applications. Margin increased by 4.3% percentage points compared to the prior-year period primarily due to multiple high margin short lead-time replacement equipment projects, in addition to contract expiration fees.

D&S segment gross profit increased by \$6.6 million, and the related margin increased by 1.3% percentage points primarily due to higher volume and increased efficiencies in the U.S. and Europe. The finalization of an insurance claim during the first quarter of 2016 positively impacted gross margin by approximately \$1.0 million. These increases are partially offset by severance costs of \$2.3 million that are reflected in cost of sales, which equates to a 0.6% gross margin impact, along with unfavorable product mix and inventory write-downs in Asia.

BioMedical segment gross profit increased by \$18.8 million, and the related margin increased by 13.4% percentage points compared to the prior-year period, primarily due to an insurance recovery, lower warranty expense and favorable product mix. During the third quarter of 2016, we recovered for breaches of representations and warranties primarily related to warranty costs for certain product lines acquired in the 2012 acquisition of AirSep under the related representation and warranty insurance. For the nine months ended September 30, 2016, this reduced BioMedical's cost of sales by \$15.1 million and added 9.6% to the year-to-date margin. The BioMedical segment's warranty expense as a percent of sales was 1.5% during the nine months ended September 30, 2016 compared to 4.2% in the prior-year period. Warranty expense has decreased due to lower than expected return rates on certain products and product mix.

**SG&A**

SG&A expenses for the nine months ended September 30, 2016 were \$143.9 million, or 22.3% of sales, compared to \$146.9 million, or 18.8% of sales, for the nine months ended September 30, 2015, representing a decrease of \$3.0 million. SG&A expenses related to restructuring activities for the nine months ended September 30, 2016 included \$2.4 million in severance costs compared to \$5.1 million of restructuring costs relating to the Owatonna facility shutdown and other severance costs for the nine months ended September 30, 2015. Additionally, lower SG&A expenses in 2016 included lower payroll related costs due to lower headcount, costs related to outside professional services, travel and entertainment, commission expense and telecommunications expense. These decreases were offset by an increase in variable short-term incentive compensation and bad debt expense compared to the nine months ended September 30, 2015.

Beginning in 2016, we allocate share-based compensation expense to each operating segment and maintain share-based compensation expense related to Corporate employees at Corporate. Prior to 2016, all share-based compensation expense was recorded at Corporate. Reclassifications from Corporate to the operating segments have been made to 2015 SG&A to conform to the 2016 presentation.

E&C segment SG&A expenses increased by \$0.1 million compared to the prior-year period primarily due to increased bad debt expense, higher severance charges and increased restructuring-related expenses, offset by lower commission expense, lower costs related to outside professional services, variable short-term incentive compensation and reduced employee costs due to headcount reductions.

D&S segment SG&A expenses decreased by \$3.6 million compared to the prior-year period. The decrease is due to lower restructuring-related expenses, lower costs related to outside professional services, travel and entertainment, employee costs due to headcount reductions and decreased severance charges, which were partially offset by higher variable short-term incentive compensation and bad debt expense.

Table of Contents

BioMedical segment SG&A expenses decreased by \$0.1 million compared to the prior-year period primarily due to lower employee costs due to headcount reductions, lower restructuring related expenses, and commission expense offset by higher variable short-term incentive compensation.

Corporate SG&A expenses increased by \$0.5 million compared to the prior-year period. Higher variable short-term incentive compensation expense and restructuring-related expenses were largely offset by lower employee costs due to headcount reductions, and lower costs related to outside professional services.

Amortization Expense

Amortization expense decreased \$3.9 million compared to the prior-year period, with \$2.8 million of the decrease due to the impact of intangible assets that were written off in the fourth quarter of 2015.

Asset Impairment

During the third quarter of 2016, we recorded asset impairment charges of \$1.2 million attributed to our D&S segment. See the Long-lived Asset Impairments section of Note 1, Basis of Preparation, to the accompanying financial statements for more information related to the asset impairment. During the nine months ended September 30, 2015, we recorded asset impairments of \$1.6 million attributed to our D&S segment and these charges were included in cost of sales on the condensed consolidated statements of operations.

Operating Income

As a result of the foregoing, operating income for the nine months ended September 30, 2016 was \$55.0 million, a decrease of \$0.7 million, or 8.5% of sales, compared to operating income of \$55.7 million, or 7.1% of sales, for the same period in 2015.

Interest Expense, Net and Financing Costs Amortization

Net interest expense for the nine months ended September 30, 2016 and 2015 was \$12.6 million and \$12.0 million, respectively. Interest expense for the nine months ended September 30, 2016 included \$3.8 million of 2.0% cash interest and \$9.3 million of non-cash interest accretion expense related to the carrying value of the Convertible Notes. For each of the nine months ended September 30, 2016 and 2015, financing costs amortization was \$1.0 million.

Income Tax Expense

Income tax expense of \$12.8 million and \$15.3 million for the nine months ended September 30, 2016 and 2015, respectively, represents taxes on both U.S. and foreign earnings at a combined effective income tax rate of 31.0% and 36.5%, respectively. The decrease in the effective tax rate was primarily due to an insurance recovery for breaches of representations and warranties that resulted in an adjustment to our purchase price of AirSep shares for tax purposes, offset by losses incurred by certain of our Chinese operations for which no tax benefit was recorded.

Net Income

As a result of the foregoing, net income attributable to the Company for the nine months ended September 30, 2016 and 2015 was \$31.5 million and \$27.2 million, respectively.

Liquidity and Capital Resources

Debt Instruments and Related Covenants

Convertible Notes: The outstanding aggregate principal amount of the Company's Convertible Notes is \$250.0 million. The Convertible Notes bear interest at a fixed rate of 2.0% per year, payable semiannually in arrears on February 1 and August 1 of each year, and will mature on August 1, 2018. The effective interest rate at issuance, under generally accepted accounting principles, was 7.9%. Upon conversion, holders of the Convertible Notes will receive cash up to the principal amount of the Convertible Notes, and it is the Company's intention to settle any excess conversion value in shares of the Company's common stock. However, the Company may elect to settle, at its discretion, any such excess value in cash, shares of the Company's common stock or a combination of cash and shares. The initial conversion price of \$69.03 per share represents a conversion premium of 30% over the last reported sale price of the Company's common stock on July 28, 2011, the date of the Convertible Notes offering, which was \$53.10 per share. At the end of the third quarter of 2016, events for early conversion were not met, and thus the Convertible Notes were not convertible as of, and for the fiscal quarter beginning October 1, 2016. There have been no conversions as of the date of this filing. In the event that holders of Convertible Notes elect to convert, the Company expects to fund any cash settlement of any such conversion from cash balances or borrowings under its senior secured revolving credit

facility.

26

---

Table of Contents

Senior Secured Revolving Credit Facility: The Company has a five-year \$450.0 million senior secured revolving credit facility (the “SSRCF”) which matures on October 29, 2019. The SSRCF includes a \$25.0 million sub-limit for the issuance of swingline loans and a \$100.0 million sub-limit to be used for letters of credit. There is a foreign currency limit of \$100.0 million under the SSRCF which can be used for foreign currency denominated letters of credit and borrowings in a foreign currency, in each case in currencies agreed upon with the lenders. In addition, the facility permits borrowings up to \$100.0 million made by the Company’s wholly-owned subsidiaries, Chart Industries Luxembourg S.à r.l. (“Chart Luxembourg”) and Chart Asia Investment Company Limited. The SSRCF also includes an expansion option permitting the Company to add up to an aggregate \$200.0 million in term loans or revolving credit commitments from its lenders. Loans under the SSRCF bear interest at LIBOR or the Adjusted Base Rate as defined in the Debt and Credit Arrangements note (Note 4) to our condensed consolidated financial statements included elsewhere in this report, plus a margin that varies with the Company’s leverage ratio. Significant financial covenants for the SSRCF include a leverage ratio and an interest ratio. As of September 30, 2016, there were no borrowings outstanding under the SSRCF. The Company had \$34.9 million in letters of credit and bank guarantees supported by the SSRCF, which had availability of \$415.1 million, at September 30, 2016. The Company was in compliance with all covenants, including its financial covenants, at September 30, 2016.

Foreign Facilities – China: Chart Cryogenic Engineering Systems (Changzhou) Company Limited (“CCESC”), Chart Energy & Chemicals Wuxi Co., Ltd. (“Wuxi”) and Chart Biomedical (Chengdu) Co. Ltd. (“Chengdu”), wholly-owned subsidiaries of the Company, and Chart Cryogenic Distribution Equipment (Changzhou) Company Limited (“CCDEC”), a joint venture of the Company, maintain joint banking facilities (the “China Facilities”) which include a revolving facility with 50.0 million Chinese yuan (equivalent to \$7.5 million) in borrowing capacity which can be utilized for either revolving loans, bonds/guarantees, or bank draft acceptances. Any borrowings made by CCESC, CCDEC, Chengdu or Wuxi under the China Facilities are guaranteed by the Company. At September 30, 2016, CCESC, CCDEC and Wuxi had 6.6 million Chinese yuan (equivalent to \$1.0 million), 0.04 million Chinese yuan (equivalent to \$0.01 million) and 0.7 million Chinese yuan (equivalent to \$0.1 million) in bank guarantees, respectively. CCDEC maintains an unsecured credit facility whereby CCDEC may borrow up to 40.0 million Chinese yuan (equivalent to \$6.0 million) for working capital purposes. This credit facility was effective until June 30, 2016. At September 30, 2016 there was 25.0 million Chinese yuan (equivalent to \$3.7 million) outstanding under this facility, bearing interest at 4.35%. CCDEC has negotiated terms to replace the expired credit facility but awaits finalization. The outstanding balance of 25.0 million Chinese yuan is not impacted.

CCESC maintains an unsecured credit facility whereby CCESC may borrow up to 30.0 million Chinese yuan (equivalent to \$4.5 million) for working capital and bank guarantee purposes. This credit facility was effective until June 30, 2016. There were no borrowings under this facility at September 30, 2016. CCESC has negotiated terms to replace the expired credit facility but awaits finalization.

CCESC entered into a term loan during the second quarter of 2016. The term loan is secured by certain CCESC land use rights and allows for up to 86.6 million Chinese yuan (equivalent to \$13.0 million) in borrowings. The loan has a term of eight years with semi-annual installment payments of at least 10.0 million Chinese yuan and a final maturity date of May 26, 2024. At September 30, 2016 there was 76.6 million Chinese yuan (equivalent to \$11.5 million) outstanding on this loan, bearing interest at 5.39%.

Foreign Facilities – Europe: Chart Ferox, a.s. (“Ferox”), a wholly-owned subsidiary of the Company, maintains a secured credit facility with capacity of up to 125.0 million Czech koruna (equivalent to \$5.2 million) and two secured credit facilities with capacity of up to 6.5 million euros (equivalent to \$7.3 million). All three facilities allow Ferox to request bank guarantees and letters of credit. None of these facilities allow revolving credit borrowings. Under two of the facilities, Ferox must pay letter of credit and guarantee fees equal to 0.70% per annum on the face amount of each guarantee or letter of credit and under one facility Ferox must pay the letter of credit and guarantee fees equal to 0.90%. Ferox’s land, buildings and cash collateral secure the credit facilities. As of September 30, 2016, there were bank guarantees of 153.7 million Czech koruna (equivalent to \$6.3 million) supported by the Ferox credit facilities. Chart Luxembourg maintains an overdraft facility with \$5.0 million in borrowing capacity. There were no borrowings under the Chart Luxembourg facility as of September 30, 2016.

Our debt and related covenants are further described in the Debt and Credit Arrangements note (Note 4) to our condensed consolidated financial statements included elsewhere in this report.

Sources and Use of Cash

Our cash and cash equivalents totaled \$267.3 million at September 30, 2016, an increase of \$143.6 million from the balance at December 31, 2015. Our foreign subsidiaries held cash of approximately \$76.3 million and \$71.9 million at September 30, 2016 and December 31, 2015, respectively, to meet their liquidity needs. No material restrictions exist to accessing cash held by

Table of Contents

our foreign subsidiaries. We expect to meet our U.S. funding needs without repatriating non-U.S. cash and incurring incremental U.S. taxes. Cash equivalents are invested in money market funds that invest in high quality, short-term instruments, such as U.S. government obligations, certificates of deposit, repurchase obligations and commercial paper issued by corporations that have been highly rated by at least one nationally recognized rating organization, and in the case of cash equivalents in China, obligations of local banks. We believe that our existing cash and cash equivalents, funds available under our SSRCF and cash provided by operations will be sufficient to finance our normal working capital needs, acquisitions, and investments in properties, facilities and equipment for the foreseeable future.

Cash provided by operating activities was \$146.6 million for the nine months ended September 30, 2016 compared to \$54.4 million of cash provided by operating activities for the nine months ended September 30, 2015. The increase in cash provided by operations is largely due to improvements in working capital, including greater cash collections during the first nine months of 2016, and reductions in inventory, partially offset by reduced accounts payable.

Additionally, we received the proceeds from the representation and warranty insurance recovery in the third quarter. Cash used in investing activities was \$13.7 million and \$71.2 million for the nine months ended September 30, 2016 and 2015, respectively. Cash used in investing activities in 2016 is largely due to capital expenditures. Capital expenditures and payments for land use rights in 2015 were largely attributed to the D&S segment's capacity expansion project in China. Also during the nine months ended September 30, 2015, we used \$24.5 million of cash related to the Thermax acquisition.

Cash provided by financing activities was \$8.8 million for the nine months ended September 30, 2016 and \$0.5 million for the nine months ended September 30, 2015. During the nine months ended September 30, 2016, we borrowed 111.6 million Chinese yuan (equivalent to \$17.0 million) and repaid 50.0 million Chinese yuan (equivalent to \$7.6 million) on our China Facilities. We used \$0.7 million for the purchase of common stock which was surrendered to cover tax withholding elections during the nine months ended September 30, 2016.

**Cash Requirements**

We do not currently anticipate any unusual cash requirements for working capital needs for the year ending December 31, 2016. Management anticipates we will be able to satisfy cash requirements for our ongoing business for the foreseeable future with cash generated by operations, existing cash balances and available borrowings under our credit facilities. We may repurchase our Convertible Notes on the open market from time to time to the extent permitted by our debt covenants with available cash. To the extent that we repurchase Convertible Notes, we would expect to enter into an agreement with each of the bank counterparties to our convertible note hedge, warrant and capped call agreements providing for the partial unwind of such agreements in a notional amount corresponding to the aggregate principal amount of Convertible Notes that we repurchase. We expect capital expenditures for the remaining three months of 2016 to be in the range of \$10.0 to \$15.0 million, which will be deployed primarily for routine capital maintenance. For the remaining three months of 2016, we contemplate the use of approximately \$2.0 to \$3.0 million of cash to pay U.S. and foreign income taxes.

Table of Contents

## Orders and Backlog

We consider orders to be those for which we have received a firm signed purchase order or other written contractual commitment from the customer. Backlog is comprised of the portion of firm signed purchase orders or other written contractual commitments received from customers that we have not recognized as revenue upon shipment or under the percentage of completion method. Backlog can be significantly affected by the timing of orders for large projects, particularly in the E&C segment, and is not necessarily indicative of future backlog levels or the rate at which backlog will be recognized as sales. Orders included in our backlog may include customary cancellation provisions under which the customer could cancel part or all of the order, potentially subject to the payment of certain costs and/or fees. Backlog may be negatively impacted by ability or likelihood of customers to fulfill their obligations. Our backlog as of September 30, 2016 was \$384.4 million compared to \$392.5 million as of June 30, 2016.

The table below represents orders received and backlog by segment for the periods indicated (dollar amounts in thousands):

|                        | Three Months<br>Ended<br>September 30,<br>2016 |           | June 30,<br>2016 |  |
|------------------------|--|-----------|------------------|--|
| <b>Orders</b>          |  |           |                  |  |
| Energy & Chemicals     | \$27,889                                       | \$53,016  |                  |  |
| Distribution & Storage | 121,010  | 156,030   |                  |  |
| BioMedical             | 52,347   | 61,221    |                  |  |
| Total                  | \$201,246                                      | \$270,267 |                  |  |
|                        | As of<br>September 30,<br>2016                 |           | June 30,<br>2016 |  |
| <b>Backlog</b>         |  |           |                  |  |
| Energy & Chemicals     | \$113,482                                      | \$114,562 |                  |  |
| Distribution & Storage | 246,197  | 252,502   |                  |  |
| BioMedical             | 24,751   | 25,433    |                  |  |
| Total                  | \$384,430                                      | \$392,497 |                  |  |

E&C orders for the three months ended September 30, 2016 were \$27.9 million compared to \$53.0 million for the three months ended June 30, 2016. E&C backlog totaled \$113.5 million at September 30, 2016, compared to \$114.6 million as of June 30, 2016. Low energy prices continue to delay natural gas, petrochemical, and LNG-related opportunities and current market conditions reinforce a challenging outlook for project awards given the reduction in capital spending by our energy-related customers. Included in the E&C backlog is approximately \$40 million related to the previously announced Magnolia LNG order where production release is delayed into at least mid-2017. Third quarter 2016 E&C backlog was reduced approximately \$5.3 million related to orders received prior to the third quarter and cancelled during the three months ended September 30, 2016. Order flow in the E&C segment is historically volatile due to project size and it is not unusual to see order intake change significantly year over year.

D&S orders for the three months ended September 30, 2016 were \$121.0 million compared to \$156.0 million for the three months ended June 30, 2016. The decrease in D&S orders was primarily attributable to bulk industrial gas applications in the U.S. D&S backlog totaled \$246.2 million at September 30, 2016 compared to \$252.5 million as of June 30, 2016. Approximately 16% of the D&S backlog relates to China as of September 30, 2016.

BioMedical orders for the three months ended September 30, 2016 were \$52.3 million compared to \$61.2 million for the three months ended June 30, 2016. The decrease in BioMedical orders was primarily attributable to respiratory therapy applications. BioMedical backlog at September 30, 2016 totaled \$24.8 million compared to \$25.4 million as of June 30, 2016.

## Off-Balance Sheet Arrangements



We do not have any material off-balance sheet arrangements. See “Guarantees of Third-Party Performance” disclosed in Note 1 to the condensed consolidated financial statements for further information.

## Table of Contents

### Application of Critical Accounting Policies

The Company's condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles. As such, some accounting policies have a significant impact on amounts reported in these condensed consolidated financial statements. A summary of those significant accounting policies can be found in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. In particular, judgment is used in areas such as revenue recognition for long-term contracts, determining the allowance for doubtful accounts, goodwill, indefinite-lived intangibles, long-lived assets, product warranty costs, pensions, share-based compensation and income taxes. There have been no significant changes to our critical accounting policies since December 31, 2015. See an update to the long-lived assets disclosure below.

**Long-Lived Assets.** The Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that long-lived assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. The impairment testing for long-lived assets is performed for asset groups at the lowest level of identifiable cash flows which are independent from cash flows associated with other assets and liabilities.

During the third quarter of 2016, the Company identified impairment indicators that suggest the carrying value of a certain asset group in China within the D&S segment may not be recoverable. The asset group evaluated for impairment relates to a previously acquired business which manufactures and distributes product lines which are distinct from the remaining D&S operations. The primary impairment indicators include recently completed projections of future cash flows and the associated impact on the long-range strategic plan forecasts, lower than expected cash flows attributed to this asset group and poor market conditions. As a result of the long-lived asset impairment assessment performed, the Company recorded long-lived asset impairment charges on its D&S reporting unit of \$1.2 million. The impairment charges were \$0.5 million related to finite-lived intangible assets and \$0.7 million related to tangible property, plant and equipment.

Additionally, during the third quarter of 2016, events and circumstances indicated that other tangible property, plant and equipment in China within our D&S segment might be impaired. However, the Company's estimate of undiscounted cash flows indicated that such carrying values were expected to be recovered. Nonetheless, it is reasonably possible that the estimate of undiscounted cash flows may negatively change in the near term, which may result in the need to write down these assets to fair value. The Company's estimate of cash flows may change in the future due to poor market conditions and excess capacity in the industry.

### Forward-Looking Statements

The Company is making this statement in order to satisfy the "safe harbor" provisions contained in the Private Securities Litigation Reform Act of 1995. This Quarterly Report on Form 10-Q includes "forward-looking statements." These forward-looking statements include statements relating to our business. In some cases, forward-looking statements may be identified by terminology such as "may," "should," "expects," "anticipates," "believes," "projects," "forecasts," "contingent," or "could," or the negative of such terms or comparable terminology. Forward-looking statements contained herein (including future cash contractual obligations, liquidity, cash flow, orders, results of operations, projected revenues, and trends, among other matters) or in other statements made by us are made based on management's expectations and beliefs concerning future events impacting us and are subject to uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control, that could cause our actual results to differ materially from those matters expressed or implied by forward-looking statements. We believe that the following factors, among others (including those described under Item 1A— "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2015), could affect our future performance and the liquidity and value of our securities and cause our actual results to differ materially from those expressed or implied by forward-looking statements made by us or on our behalf:

- the cyclicity of the markets which we serve and the vulnerability of those markets to economic downturns;
- the loss of, or a significant reduction or delay in purchases by, our largest customers;
- fluctuations in energy prices;
- our ability to control our costs and successfully manage our operations;

- the potential for negative developments in the natural gas industry related to hydraulic fracturing;
- competition in our markets;
- the impairment of our goodwill or other intangible assets;
- governmental energy policies could change, or expected changes could fail to materialize;
- degradation of our backlog as a result of modification or termination of orders;
- the loss of key employees;
- our ability to successfully acquire or integrate companies that provide complementary products or technologies;

Table of Contents

economic downturns and deteriorating financial conditions;  
our ability to manage our fixed-price contract exposure;  
our reliance on the availability of key supplies and services;  
fluctuations or adjustments in the Company's effective tax rate;  
changes in government health care regulations and reimbursement policies;  
litigation and disputes involving us, including the extent of product liability, warranty, contract, employment, intellectual property and environmental claims asserted against us;  
fluctuations in foreign currency exchange rates and interest rates;  
general economic, political, business and market risks associated with our global operations;  
our warranty reserves may not adequately cover our warranty obligations;  
technological security threats and our reliance on information systems;  
financial distress of third parties;  
our ability to protect our intellectual property and know-how;  
United States Food and Drug Administration and comparable foreign regulation of our products;  
the pricing and availability of raw materials;  
the cost of compliance with environmental, health and safety laws and responding to potential liabilities under these laws;  
claims that our products or processes infringe intellectual property rights of others;  
additional liabilities related to taxes;  
our ability to continue our technical innovation in our product lines;  
labor costs and disputes and the deterioration of our relations with our employees;  
increased government regulation;  
the underfunded status of our pension plan;  
the risk of potential violations of the Foreign Corrupt Practices Act;  
disruptions in our operations due to severe weather;  
regulations governing the export of our products and other regulations applicable to us as a supplier of products to the U.S. government;  
risks associated with our indebtedness, leverage and liquidity;  
potential dilution to existing holders of our common stock as a result of the conversion of our Convertible Notes, and the need to utilize our cash balances and/or credit facility to fund any cash settlement related to such conversions;  
fluctuations in the price of our stock; and  
other factors described herein.

There may be other factors that may cause our actual results to differ materially from the forward-looking statements. All forward-looking statements attributable to us or persons acting on our behalf apply only as of the date of this Quarterly Report and are expressly qualified in their entirety by the cautionary statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, as the same may be updated from time to time. We undertake no obligation to update or revise forward-looking statements which may be made to reflect events or circumstances that arise after the filing date of this document or to reflect the occurrence of unanticipated events.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

In the normal course of business, the Company's operations are exposed to fluctuations in interest rates and foreign currency values that can affect the cost of operating and financing. Accordingly, the Company addresses a portion of these risks through a program of risk management.

**Interest Rate Risk:** The Company's primary interest rate risk exposure results from the SSRCF's various floating rate pricing mechanisms. As of September 30, 2016, there were no borrowings outstanding under the SSRCF, thus, the Company believes that interest rate exposure is not a material risk to the Company at this time.

**Foreign Currency Exchange Rate Risk:** The Company operates in the United States, Asia, Australia, Europe and South America, creating exposure to foreign currency exchange fluctuations in the normal course of business which can impact our financial position, results of operations, cash flow and competitive position. The financial statements of

foreign subsidiaries are translated into their U.S. dollar equivalents at end-of-period exchange rates for assets and liabilities, while income and expenses

31

---

Table of Contents

are translated at average monthly exchange rates. Translation gains and losses are components of other comprehensive income (loss) as reported in the condensed consolidated statements of operations and comprehensive income (loss). Translation exposure is primarily with the euro, the Chinese yuan, and the Japanese yen. During the third quarter of 2016, the Chinese yuan increased in relation to the U.S. dollar by 1% while the Japanese yen decreased by 2% in relation to the U.S. dollar and the euro decreased by 1% in relation to the U.S. dollar. At September 30, 2016, a hypothetical further 10% strengthening of the U.S. dollar would not materially affect the Company's financial statements.

Chart's primary transaction exchange rate exposures are with the euro, the Japanese yen, the Czech koruna, the Australian dollar, the Norwegian krone, and the Chinese yuan. Transaction gains and losses arising from fluctuations in currency exchange rates on transactions denominated in currencies other than the functional currency are recognized in the condensed consolidated statements of operations and comprehensive income (loss) as a component of foreign currency (gain) loss. The Company enters into foreign exchange forward contracts to hedge anticipated and firmly committed foreign currency transactions. Chart does not use derivative financial instruments for speculative or trading purposes. The terms of the contracts are generally one year or less. At September 30, 2016, a hypothetical 10% weakening of the U.S. dollar would not materially affect the Company's outstanding foreign exchange forward contracts.

Market Price Sensitive Instruments

In connection with the issuance of the Convertible Notes, the Company entered into privately-negotiated convertible note hedge and capped call transactions with affiliates of certain of the underwriters (the "Option Counterparties"). The convertible note hedge and capped call transactions relate to, collectively, 3.6 million shares, which represents the number of shares of the Company's common stock underlying the Convertible Notes, subject to anti-dilution adjustments substantially similar to those applicable to the Convertible Notes. These convertible note hedge and capped call transactions are expected to reduce the potential dilution with respect to the Company's common stock upon conversion of the Convertible Notes and/or reduce the Company's exposure to potential cash or stock payments that may be required upon conversion of the Convertible Notes, except, in the case of the capped call transactions, to the extent that the market price per share of the Company's common stock exceeds the cap price of the capped call transactions.

The Company also entered into separate warrant transactions with the Option Counterparties initially relating to the number of shares of the Company's common stock underlying the convertible note hedge transactions, subject to customary anti-dilution adjustments. The warrant transactions will have a dilutive effect with respect to the Company's common stock to the extent that the price per share of the Company's common stock exceeds the strike price of the warrants unless the Company elects, subject to certain conditions, to settle the warrants in cash. The cap price of the capped call transactions and the strike price of the warrant transactions was initially \$84.96 per share. Further information is located in the Debt and Credit Arrangements note to the Company's condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Item 4. Controls and Procedures

As of September 30, 2016, an evaluation was performed, under the supervision and with the participation of the Company's management including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 under the Securities and Exchange Act of 1934, as amended (the "Exchange Act"). Based upon that evaluation, such officers concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act (1) is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms and (2) is accumulated and communicated to the Company's management including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

There were no changes in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's

internal control over financial reporting.

32

---

Table of Contents

## PART II. OTHER INFORMATION

## Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the risk factors disclosed in Item 1A, "Risk Factors," of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## Issuer Purchases of Equity Securities

| Period                 | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|------------------------|----------------------------------|------------------------------|--|--|
| July 1 – 31, 2016      | 573                              | \$ 24.86                     | —  | \$ —   |
| August 1 – 31, 2016    | 21                               | 27.95                        | —  | —  |
| September 1 – 30, 2016 | 21                               | 30.11                        | —  | —  |
| Total                  | 615                              | \$ 25.15                     | —  | \$ —   |

During the third quarter of 2016, 615 shares of common stock were surrendered to us by participants under our share-based compensation plans to satisfy tax withholding obligations relating to the vesting or payment of equity awards for an aggregate purchase price of approximately \$15,500. The total number of shares repurchased represents the net shares issued to satisfy tax withholding. All such repurchased shares were subsequently retired during the three months ended September 30, 2016.

## Item 4. Mine Safety Disclosures

Not applicable.



Table of Contents

Item 6. Exhibits

The following exhibits are included with this report:

- Employment Agreement, dated July 13, 2016, by and between Chart Industries, Inc. and William C. Johnson
- 10.1 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on July 14, 2016 (File No. 001-11442)) \*
- Amendment No. 2 to the Amended and Restated Chart Industries, Inc. Voluntary Deferred Income Plan
- 10.2 (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the SEC on July 14, 2016 (File No. 001-11442)) \*
- 31.1 Rule 13a-14(a) Certification of Chief Executive Officer (x)
- 31.2 Rule 13a-14(a) Certification of Chief Financial Officer (x)
- 32.1 Section 1350 Certification of Chief Executive Officer (xx)
- 32.2 Section 1350 Certification of Chief Financial Officer (xx)
- 101.INS XBRL Instance Document (xxx)
- 101.SCH XBRL Taxonomy Extension Schema Document (xxx)
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document (xxx)
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document (xxx)
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document (xxx)
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document (xxx)

---

(x) Filed herewith.

(xx) Furnished herewith.

In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Form 10-Q shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or (xxx) otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act of 1933 or Securities Exchange Act of 1934, except as shall be expressly set forth by specific reference in such filing.

\* Management contract or compensatory plan or arrangement.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Chart Industries, Inc.  
(Registrant)

Date: October 27, 2016 By: /s/ Kenneth J. Webster  
Kenneth J. Webster  
Vice President and Chief Financial Officer  
(Principal Financial Officer)  
(Duly Authorized Officer)